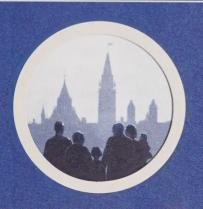






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2003



Report of the
Auditor General
of Canada
to the House of Commons

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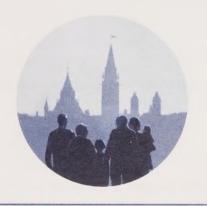
A Message from the Auditor General Main Points







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In 2003, the Office marks the 125th anniversary of the appointment of the first independent Auditor General of Canada. Both sides of the House of Commons cheered when the Government of Alexander Mackenzie proposed the 1878 bill that would "free the auditing of Public Accounts from any interference on the part of the administration." That enlightened legislation laid the groundwork for 125 years of dedicated service to Parliament and to Canadians.

The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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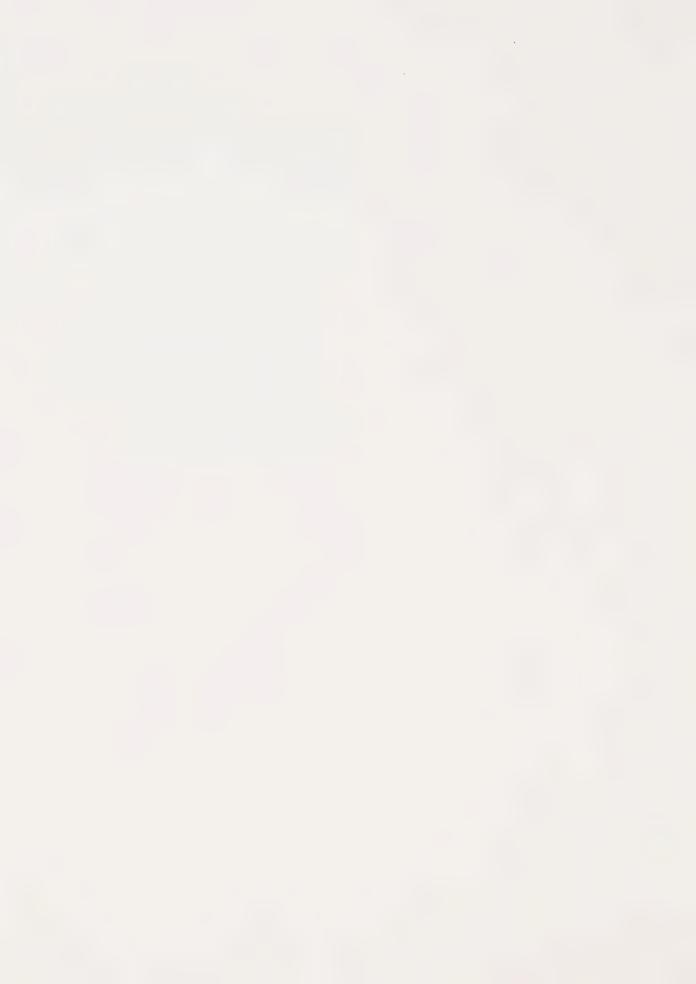
To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my first Report of 2003 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

Sheila Fraser, FCA

Sheila Fraser, FCA Auditor General of Canada Digitized by the Internet Archive in 2022 with funding from University of Toronto

A message from
A message from the Auditor General



A message from the Auditor General



Sheila Fraser, FCA Auditor General of Canada

Managing well in the face of uncertainty

Risk—and the need to manage it—are facts of life

We all manage risk intuitively when we make day-to-day decisions in the face of uncertainty about the future. The federal government must also make choices in its daily operations, despite uncertainty. The government's decisions have consequences—both positive and negative—for the public servants and the departments that make them, and they also have a significant impact on the citizens of this country. When making choices, the government's challenge is to strike the right balance in order to maximize potential benefits and minimize negative consequences.

Good risk management in government does not mean avoiding all risk; doing so would paralyze efforts to improve programs or make them more efficient. What we should be working toward in the public service is a "risk-smart" workforce. The goal should be to move away from both overcautious avoidance of all risk at one end of the spectrum and irresponsible chance-taking at the other. Instead, we should seek to encourage a workforce that advances innovation by accepting reasonable risks while protecting the public interest and maintaining public confidence.

Managing risk well improves government's effectiveness

A system or process for responding to risks and mitigating them is one of the distinguishing features of effective management. The Government of Canada recognized the desirability and importance of managing risk when it developed its Integrated Risk Management Framework.

The first chapter of this report, Integrated Risk Management, assesses what six departments have done under the Framework published by Treasury Board Secretariat in April 2001 to integrate risk management practices into the management of their operations. While we found evidence that the initial steps have been taken, the visible and sustained commitment and leadership of senior management will be needed to see it through to full implementation. None of the six departments we audited had an action plan that addressed all the elements that the Treasury Board Secretariat has suggested. Nor did they have a fully developed departmental risk profile indicating the level of risk that senior management was willing to tolerate or accept. The Treasury Board Secretariat will need to broaden the scope of its monitoring in order to sustain momentum.

The other chapters in this Report do not specifically assess the risk management strategies of the departments we discuss. Still, many of the key issues we raise indicate how well the departments have been able to assess and manage the environmental, strategic, operational, and financial risks within their control and respond to risks outside their control.

In that respect, this Report is about risk management: it provides examples of how good risk management practices can make the public service more effective and, in general, give Canadians better value for money by improving program management and service delivery.

Government has a special role in ensuring public safety and security

Government faces many of the same risks as the private sector and a range of other risks that stem from its role in assuring public safety and security. These days, people are more aware of grave risks such as terrorism. But managing risk means more than preparing for the worst; it also means taking advantage of opportunities—to improve services, increase benefits, or lower costs, for example.

To manage risk well, government departments need reliable information about the hazards and opportunities at stake, good tools for assessing risk, and competent people trained to use them. They also need to determine their tolerance for risk, integrate risk-related factors and the development of mitigation strategies into their overall decision-making processes, and establish good performance indicators so that management can measure progress and make adjustments when necessary.

The dual mandate of Citizenship and Immigration Canada—welcoming legitimate travellers to Canada and preventing the entry of those deemed inadmissible—represents an enormous challenge for risk management. This is explored in Chapter 5, Citizenship and Immigration—Control and Enforcement.

The negative consequences of a system that either overestimates or underestimates the risks presented by travellers to this country are great: overly intrusive screening could damage tourism or interfere with legitimate commercial traffic while inadequate screening could compromise public security.

In addition, the sheer number of visitors to Canada—100 million arrivals every year at our ports of entry—rules out an in-depth, time-consuming assessment of every single visitor. Doing a thorough assessment of the risks at each port of entry would give the Department a basis for determining how many travellers, and which ones, require more intensive scrutiny. However, it has not carried out a comprehensive risk assessment at ports of entry that would help it identify those with the greatest risks in order to focus greater attention there.

When visitors admitted to Canada are later found to be inadmissible, it is up to Citizenship and Immigration to enforce their removal. However, our audit found that high workloads, insufficient resources, and inadequate information systems hinder the Department's ability to investigate, detain, and remove people who should not remain in the country. One result is a growing gap between the number of removals ordered and the number confirmed. In the past six years, this gap has grown by about 36,000.

Although this does not necessarily mean that all these people are still in Canada illegally, it does indicate that the Department is falling behind in carrying out removal orders.

Given the high cost of removing someone already admitted to Canada, it makes sense to prevent inadmissible travellers from entering the country in the first place. In the past three years, the Department's Immigration Control officers have worked with airlines overseas to prevent some 20,000 people with fraudulent travel documents from boarding flights to Canada. This effort represents a good example of allocating resources according to risk.

Correctional Service Canada is another department whose core mandate as expressed in its dual role—incarcerating offenders and safely reintegrating them into the community—requires that it manage risks effectively. Correctional Service initially must assess the risk offenders pose to institutional security and the risk that they will escape; later, it must manage the risk that offenders present to the community once they are released on parole.

Chapter 4, Correctional Service Canada—Reintegration of Women Offenders, looks at how well the Service is managing the reintegration process from the initial assessment of offenders to their supervision in the community while on parole.

While the Service has achieved a great deal in improving how women offenders are incarcerated and rehabilitated, it has not tested the reliability of the tools it uses to assess the risks they present. It also needs to do a better job of providing enough timely rehabilitation programs tailored to the particular needs of women offenders. Such programs help prepare women for their release on parole, where the consequences of failed rehabilitation can be serious for the offender and for the community.

Military testing and training pose environmental risks

The Department of National Defence must manage some serious environmental risks, as we report in Chapter 7, National Defence— Environmental Stewardship of Military Training and Test Areas. Our audit found cases where the Department did not exercise due diligence to protect the environment in its everyday training activities.

In some cases, the Department did not comply with federal legislation for the protection of the environment. One case we looked at involved clearing trees from 7,250 hectares of land at the Combat Training Centre in Gagetown, New Brunswick between 1995 and 1997, which resulted in the silting of a salmon spawning stream, contrary to the *Fisheries Act*.

The Department also needs to finish identifying whether its training and test sites have been contaminated by the firing of munitions and to develop an action plan for cleaning up the contaminated sites it already knows about.

Good information is essential

Risks cannot be managed well without good information. Managers must have complete and reliable information about full costs (including overhead), about performance, about outcomes, and about risks and their consequences if they are to make good decisions when weighing risks and benefits.

However, as we report in Chapter 2, Managing the Quality of Financial Information, our audit found that despite some improvements there are still weaknesses in the quality of financial information available to managers in the federal government. Even after an investment of more than \$600 million in new systems, some managers still rely on their own "black books" to keep track of cash expenditures so they do not overspend their discretionary funds. The Treasury Board Secretariat currently provides departments with only limited guidance on the quality of financial information. Departments need more guidance to help ensure that their financial information is consistent, of high quality, and reliable—not only for their own decision making, but for the quality of government-wide reporting.

The need for improved information is a key theme repeated in Chapter 6, Federal Government Support to First Nations—Housing on Reserves.

Our audit found, among other things, that Indian and Northern Affairs Canada, Canada Mortgage and Housing Corporation, and First Nations themselves need better information about the costs, performance, and results of on-reserve housing programs. Better information can help them make better decisions on how to allocate scarce resources and strengthen their accountability for the money spent and the results achieved. At present, Parliament does not receive complete information about the housing situation on reserves and the difference that federal assistance is making to the critical housing shortage.

Efforts to combat money laundering must weigh risks and priorities

Chapter 3, Canada's Strategy to Combat Money Laundering, provides an example of the kinds of risks and challenges that the government faces when developing policies and programs that must balance competing priorities.

The chapter discusses the results of a study we carried out to prepare for an audit scheduled for 2003–04. The study looked at some of the competing objectives that the federal government must reconcile in its efforts to meet the international commitments it has made to combat money laundering; each of those commitments has a set of risks that must be managed.

Here again, we see the critical importance to the government of having accurate and complete information—in this case, information on which it can base a strategy to fight money laundering and assess the effectiveness of that strategy. The government needs reliable estimates of the size of the problem. But as we note in the chapter, there are no reliable or generally agreed-on figures.

Acquiring good information on money laundering necessarily intrudes on the privacy of information about financial transactions—an intrusion that governments and law enforcement agencies justify as essential to combatting crime and terrorism. The government must balance the privacy rights of individuals against the information needs of law enforcement.

In addition, the costs of the reporting required in the effort to combat money laundering must be considered. The costs borne by taxpayers and financial institutions to fight money laundering must be weighed against the financial risk of doing nothing.

Conclusion

Risk management in the federal government is vital to managing resources more efficiently, making better decisions, and ultimately making the public service more effective. It will help departments make wiser decisions about the environmental, strategic, operational, political, and financial risks within their control and to respond better to the risks beyond their control.

Good information, good risk assessment tools, and people trained to use both; adequate performance measures; and management practices that integrate these elements into the decision-making process—these are the ingredients for managing risk well. In the end, they will take much of the guesswork out of managing risk and help to create a culture in which reasonable risks can be taken—an environment that encourages innovation and achieves beneficial results for Canadians.

	Main Points



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Main Points

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Integrated Risk Management

Chapter 1 Main Points

- 1.1 In the six departments that we audited, senior executives have taken some of the early steps that demonstrate their commitment to integrated risk management. Their sustained and visible support over time will be needed to obtain the support of managers and staff that is crucial to the initiative's success.
- 1.2 Any initiative such as integrated risk management that calls for significant change requires a well-developed action plan to guide its progress. Despite their importance, action plans in all six of the departments we examined were missing important elements needed to implement integrated risk management department-wide. Where sound action plans are lacking, we are concerned that the integrated risk management initiative could drift—despite the high priority placed on implementing the Integrated Risk Management Framework as a key element of both modern comptrollership and improved reporting to Parliament.
- 1.3 Risk profiling, another essential element of integrated risk management, includes the critical step of defining an organization's tolerance for risk. No department that we audited had a fully developed profile clearly indicating the level of risk that senior management was prepared to tolerate throughout the department. The development of risk tolerances assists departments in integrating risk management into their operations. Without clearly established risk tolerances, some managers may choose to avoid risk entirely, preferring the status quo; others may take greater risks than senior management is willing to accept.
- 1.4 In two of the departments we audited, internal audit has been made responsible and accountable for implementing significant components of the integrated risk management initiative on behalf of senior management. In our view, the close involvement of internal audit in implementing the initiative may compromise its ability in the future to provide objective, independent advice and assurance on the effectiveness of integrated risk management in the department.
- 1.5 The Treasury Board Secretariat has produced initial material to help departments start implementing the initiative. However, departments will need more practical guidance on how to carry out specific key steps toward integrating risk management into their management culture.

Background and other observations

- 1.6 Integrated risk management means incorporating risk information into the strategic direction-setting of the organization and making decisions that consider the department's established risk tolerance limits. Stronger risk management practices across the federal government are essential to managing resources more effectively, making better decisions, and ultimately improving the effectiveness of the public service.
- 1.7 The Treasury Board Secretariat published the Integrated Risk Management Framework in April 2001 as part of modern comptrollership, an initiative designed to strengthen management capabilities in departments and agencies.
- 1.8 This Framework describes risk management as the practices and procedures that an organization uses to manage the risks it faces; risk is defined as the uncertainty that surrounds future events and outcomes. Risk is the expression of the likelihood and impact of a future event with the potential to influence the achievement of the organization's objectives.
- 1.9 Departments, like many organizations, are at the initial stages of developing their integrated risk management practices. While departments have taken some positive first steps toward integrated risk management, much remains to be done.
- 1.10 Integrated risk management has a role to play in making the public service more effective. It contributes to better program management and delivery and better value for money. In addition, it helps departments make more informed decisions in managing the environmental, strategic, operational, political and financial risks that are under their control, and it should position them better to respond to those risks that are beyond their control.
- 1.11 Generally, we noted a lack of concerted effort across departments to co-ordinate and communicate key information on the initiative. We also found little evidence that departments had made much progress in assessing their capacity for integrated risk management.
- 1.12 We noted that departments had done little or nothing to lay the foundation for monitoring and evaluating activities under the initiative.

The Treasury Board Secretariat has responded. The Secretariat has indicated the actions it has planned or has under way to address the recommendations. Its detailed response follows each recommendation throughout the chapter.



Managing the Quality of Financial Information

Chapter 2 Main Points

- 2.1 High-quality financial information that is relevant and useful is important for departmental and government-wide decision making, for preparing the government's summary financial statements, and for reporting to Parliament and to the public the full cost of delivering government programs. As part of its Financial Information Strategy (FIS), the government has invested over \$600 million in new financial systems, policies, and training. Despite being in place for two years, the new FIS infrastructure is still not being used to its full potential.
- 2.2 Managers find it difficult to access the complete financial information they need on-line. Therefore, they continue to maintain their own spreadsheets or local systems, integrating financial data from several systems. These "black books" provide them with the more complete, timely, and accurate picture of their financial operations that they need for making appropriate decisions, projections, and future plans. While generally confident about the basic cash expenditure information, managers expressed some concerns—for example, about delays in personnel changes being reflected in their salary costs, usually the largest portion of their budget. If managers do not use or challenge the data in the departmental systems, there is a risk that the quality of the data may suffer.
- 2.3 Departments have implemented, or are planning to implement, a number of financial data quality assurance practices, but these practices vary by department and within departments. In addition, there is no formal process to gather and share departmental best practices for ensuring the quality of financial data either inside the departments or among them.
- 2.4 The Treasury Board Secretariat provides limited guidance on the quality of financial data, and its *Framework for the Management of Information* is still in the early stages of development. More guidance is needed to help ensure that departmental financial data are prepared to a consistently high standard, primarily for use by departments, but also for high-quality government-wide reporting. We found that some planning for this is underway.
- 2.5 The Office's assessment of internal controls for the new financial systems in a selection of large departments found weaknesses, such as in managing access rights to the system. Departments are making progress in correcting these weaknesses, but we are continuing to press for quicker action. Managers need to be educated on the importance of different types of

controls and how they can be applied to help ensure high-quality financial data.

Background and other observations

- 2.6 The government is implementing its Comptrollership Modernization and Results for Canadians initiatives. To carry out this process, it needs good-quality information on the full cost of departmental programs. However, departments are not making full use of activity or program costing, including the full allocation of corporate overheads. The systems, policies, and practices for capturing and reporting full cost information need to be improved.
- 2.7 The current government environment encourages managers to focus on the amount of their original allotment of money left to spend—their "free balance." As a result, full cost information is not as important to managers as cash expenditure information, so they do not focus on full cost information and its quality. Data quality is usually defined in terms of "fitness for use" (usefulness). The best technique for ensuring high-quality information is to encourage its use in day-to-day management. This is not happening. More work is needed to provide high-quality financial information on costs of programs and to encourage managers to use that information.
- departments to the Receiver General, the quality of the data has improved over the past year. The Receiver General's quality assurance unit has worked with departments to help them identify and deal with errors uncovered. However, without information on the nature of the detailed transactions behind the summary data, the Receiver General can identify only some obvious coding errors. In addition, the Receiver General represents the end of the information chain; errors noted at that level indicate a lack of quality assurance practices closer to the source (data entry), where prevention and correction are much more cost-effective.

The Treasury Board Secretariat and the Receiver General have responded. They agree with the recommendation and describe the work they currently carry out or plan to carry out regarding financial data quality.

Public Works and Government Services Canada, Transport Canada, the Department of Foreign Affairs and International Trade, and Human Resources Development Canada have responded. They agree with the recommendations and indicate the actions they currently take or plan to take to deal with financial data quality.

The Royal Canadian Mounted Police agrees with the chapter and is looking forward to working with the Office of the Auditor General to make the required improvements.



Canada's Strategy to Combat Money Laundering

Chapter 3 Main Points

- 3.1 Over the past 15 years the international community has strengthened its efforts to combat drug trafficking, organized crime, and terrorism. As a key part of this strategy, countries are focusing on the money trail that links criminals to their crimes. They identify, seize, and confiscate criminal proceeds—the profits made from crimes.
- 3.2 Canada acted quickly to put in place legislation to deal with proceeds of crime and money laundering. However, until recently the legislation lacked two elements of what is now viewed as the international norm for an effective system to combat money laundering:
 - mandatory reporting of suspicious and certain other financial transactions, and
 - a financial intelligence unit to analyze these reports and to release information to intelligence and law enforcement agencies when appropriate.
- Canada launched the National Initiative to Combat Money
 Laundering in 2000 to close these gaps. Its centrepiece was a new *Proceeds of Crime (Money Laundering)* Act. A total of \$139 million was budgeted over the first four years to establish the Financial Transactions and Reports Analysis Centre of Canada and to help the Centre's partners to perform their roles. In 2001 both the Act and the mandate of the Centre were amended to include provisions to detect and deter terrorist financing. The Centre received an additional \$34 million over three years for that role.
- balance among its various objectives. They are to strengthen law enforcement, protect personal information, and support international efforts to combat money laundering. The strategy also seeks to keep to a minimum the costs that organizations, such as banks, trust companies, and foreign-currency exchanges, incur to comply with the law to keep records, identify clients, and report unusual or suspicious transactions. With the new law, the balance has shifted to give greater weight to strengthening law enforcement, in Canada and internationally.
- **3.5** To meet its goals to reduce money laundering and terrorist financing, the federal government will need to deal with a series of challenges. These include the following:
 - to protect the privacy rights that Canadians enjoy under the Canadian Charter of Rights and Freedoms,

- to develop financial intelligence that is high in quality, and that assists law enforcement and other agencies in their investigations,
- to respond to the particular challenges posed by terrorist financing, such as following the trail of small deposits and withdrawals,
- to make financial organizations and the public aware of the new rules under the legislation and to ensure that they comply with the rules,
- to establish and maintain effective working relationships across a broad range of partners and stakeholders, and
- to measure how effective the federal efforts to combat money laundering and terrorist financing are.

Background and other observations

- 3.6 Money laundering is a form of financial crime in which the proceeds from criminal activity are made to appear legitimate. The goal of many criminal acts is to make a profit for the individual or group that commits the crime. A strategy to fight money laundering seeks to reduce crime by making it harder for criminals to keep and use their profits.
- 3.7 Both the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Anti-terrorism Act state that Parliament must review the Acts and how they are administered. To prepare for these parliamentary reviews, the Office of the Auditor General has developed a reporting process with two parts.
 - This study sets the stage for a future audit of the federal government's strategy to combat money laundering. It describes money laundering and the key challenges to combatting it.
 - In November 2004 we will address the issue of how well those challenges are being managed.



Correctional Service Canada Reintegration of Women Offenders

Chapter 4 Main Points

- 4.1 Over the last 12 years, Correctional Service Canada has accomplished a great deal in changing how women offenders are incarcerated and rehabilitated. Based on the work of its Task Force on Federally Sentenced Women, the Service has altered the way women who are sentenced to two years or more serve their sentences. The Task Force brought about the closing of the Kingston Prison for Women, which was replaced with five new regional facilities across Canada during a period of significant growth in the population of women offenders. There has also been a renewed emphasis on developing rehabilitation programs for women.
- 4.2 While Correctional Service Canada has made progress, some challenges and problems remain. The Service has not tested the reliability of the instruments it uses to assess women offenders. In the short term, this testing is fundamental to making the right decision about an offender's security level and her program needs for successful rehabilitation. In the longer term, incorrect assessment could lead to reoffending and the social costs it brings.
- 4.3 There are gaps in the delivery of programs and services both in the institutions and in the community:
 - Correctional Service does not consistently deliver rehabilitation programs on time for incarcerated women offenders. These programs are a critical factor in preparing offenders for a National Parole Board review at their parole eligibility dates.
 - Correctional Service needs to implement a comprehensive, more gender-specific model for treating substance abuse, a much-needed program for the rehabilitation of women offenders.
 - Women offenders have little access to meaningful work opportunities and employment programs while they are incarcerated. Gaining work skills is considered an important factor in their successful reintegration into the community.
 - Correctional Service Canada has difficulty meeting the program and service needs of women offenders in the community. Lack of substance abuse programs and inadequate mental health services are critical areas for improvement.

Background and other observations

4.4 Correctional Service Canada is responsible for maintaining the security of federally sentenced women offenders and preparing them for reintegration

into the community, both while they are incarcerated and while they are on parole. Since 1995, the number of women offenders in federal correctional care has increased more than 30 percent.

- 4.5 Of the \$57 million spent in 2001–02 on women offenders in federal institutions, about \$13 million is for institutional reintegration activities. The Service does not report total annual expenditures for women offenders under its supervision and care in the community.
- 4.6 We also found that Correctional Service needs to
 - review the process of developing correctional plans for women offenders to determine the causes of late completion, and
 - examine the use of other mechanisms for offenders' reintegration (temporary absences, work releases, and special custodial and release arrangements for Aboriginal women) and identify opportunities to improve existing practices.

Correctional Service Canada has responded. Correctional Service has generally accepted our recommendations. Its responses indicate what it is doing or plans to do to address them.



Citizenship and Immigration Canada Control and Enforcement

Chapter 5 Main Points

- 5.1 There is a growing but unknown number of people who remain in Canada despite Citizenship and Immigration Canada's having issued a removal order against them. The gap between removal orders issued and confirmed removals has grown by about 36,000 in the past six years. This does not necessarily mean that this number of people remain illegally at large in Canada—some may have left without reporting their departure. However, it does indicate that the Department is falling behind in removing people.
- **5.2** An evaluation of the immigration secondary examination process in 1994 concluded that it was only 50 percent effective at controlling inadmissible travellers. No subsequent evaluation has been done or is planned.
- 5.3 Citizenship and Immigration Canada has invested in developing the National Case Management System. The System can be a valuable tool that significantly improves officers' ability to manage enforcement cases that involve investigations, detentions, and removals. However, the Department has not routinely used some key information to manage those activities, or it has found that the information was not readily available. The Department plans to replace existing systems with the new Global Case Management System by 2005, but currently, the project is behind schedule because of delays in contractor selection. The Department needs to continue to improve its current systems in the meantime.
- 5.4 The ability of immigration officers to detain travellers at their discretion is a key control in the enforcement program. We are concerned that lack of available space and tight budgets are affecting detention decisions. Also, the Department's policy on detaining travellers who lack proper identification is not clearly understood by staff who have to apply it. There are also no data available on the number of people detained for this reason.
- 5.5 Overseas, Citizenship and Immigration Canada has established a network of immigration control officers that works with airlines to help identify people attempting to travel to Canada with improper or false documents. This function has worked well and the Department has added to the number of immigration control officers and expanded the role they play.
- 5.6 Although both Citizenship and Immigration Canada and the Canada Customs and Revenue Agency play critical roles in controlling access to Canada, there is no up-to-date memorandum of understanding between the Department and the Agency that would establish, among other things,

performance standards and a means for monitoring performance. Our Office has commented repeatedly on this since 1985.

5.7 At ports of entry in Canada, customs officers first deal with travellers on the primary inspection line. The officers decide whether a traveller should be referred to a secondary examination by Citizenship and Immigration Canada. Citizenship and Immigration Canada has no system to evaluate the performance of the primary inspection line. A previous evaluation showed that the primary inspection line was not very effective because it allowed into Canada too many people who should have undergone a secondary examination. Some major technological improvements were subsequently made to the tools available to the primary inspection line, such as direct access to the immigration database. However, the Department has not undertaken a recent evaluation to see whether the effectiveness of the primary inspection line has improved, and none is planned. The Department recently collected information that indicates there is still a need to measure systematically the effectiveness of the primary inspection line at identifying and referring potentially inadmissible travellers.

Background and other observations

5.8 Citizenship and Immigration Canada has a difficult task—it must balance the competing demands of facilitation and control. They are both important. The Department must welcome legitimate travellers into the country and prevent the entry of those who are inadmissible. This audit examined control and enforcement activities and did not examine the activities related to facilitation.

The Departments have responded. Citizenship and Immigration Canada and the Canada Customs and Revenue Agency have agreed with our recommendations. Plans and actions they have underway are indicated in their responses in the chapter.

Additional observation. Subsequent to our audit, Citizenship and Immigration Canada and the Canada Customs and Revenue Agency signed an updated memorandum of understanding.



Federal Government Support to First Nations—Housing on Reserves

Chapter 6 Main Points

- 6.1 Poor housing on reserves has a negative effect on the health, education, and overall social conditions of First Nations individuals and communities. Although we noted signs of improvement in some First Nations communities, there is still a critical shortage of adequate housing to accommodate a young and growing population. In 2001, Indian and Northern Affairs Canada estimated that there was a shortage of about 8,500 houses on reserves and about 44 percent of the existing 89,000 houses required renovations. The growth rate of the on-reserve population is twice that of the Canadian average, with more than half the population under 25 years of age.
- 6.2 Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation (CMHC) are the two main federal organizations that assist First Nations in meeting their on-reserve housing needs. We calculated that these two organizations have provided First Nations with about \$3.8 billion over the last 10 years for on-reserve housing. However, they have not clearly defined what their assistance is intended to achieve in terms of addressing the critical housing shortage; nor have they defined a time frame in which to achieve it.
- 6.3 The Department's and CMHC's programs and funding mechanisms to support on-reserve housing are complex and need to be streamlined, with clear assignment of responsibility for results. All the main parties involved—First Nations individuals, their leaders, and federal organizations—need to reach a broad agreement on their respective roles and responsibilities for on-reserve housing.
- 6.4 Parliament is not receiving a complete picture of the housing situation on reserves and what is actually being achieved with departmental and CMHC funds. Better information about on-reserve housing costs, program performance, and results is also needed, both to help the Department, CMHC, and First Nations make informed decisions about the allocation of funds and to strengthen accountability to Parliament and to First Nations communities.
- 6.5 Although some corrective action is being taken or planned, we identified a number of additional issues that the Department and CMHC need to address promptly to improve program performance and to ensure compliance with authorities. These issues are reflected in our recommendations.

Background and other observations.

- 6.6 The First Nations populations on reserves are diverse. Significant differences exist among communities in their culture, size, location, aspirations, capacity, and access to non-government resources. Despite some progress, the gap in socio-economic conditions between First Nations and the rest of Canada remains wide.
- 6.7 On-reserve housing is fundamentally different and more complex than off-reserve housing. It is governed by the legal framework defined by the *Indian Act*. Many practices and approaches related to off-reserve housing do not apply on reserves. For example, taking out a mortgage to buy a house or renting an apartment, and all the infrastructure, rules, and regulations that surround these activities, are taken for granted off-reserve. However, they do not exist to the same extent—or at all—for on-reserve housing.
- 6.8 In 1996 the government approved a new on-reserve housing policy. It was intended to provide First Nations with more flexibility and control in managing their housing funds to better address the housing needs of each community. The Department and CMHC announced that \$140 million in funds to support the policy changes would be reallocated from their existing budgets over the next five years. The Assembly of First Nations, however, estimated that about \$750 million would be required annually to meet the increasing housing needs of the growing on-reserve population and that an additional \$2.5 billion would be needed to deal with the shortage of adequate houses.
- 6.9 The unacceptable housing situation on reserves is a long-standing problem. It has been the subject of numerous studies over the last 20 years, including an important study by the Royal Commission on Aboriginal People in 1996. However, according to the Department, despite some progress the current level of investment by all parties is insufficient for many First Nations to sustain improvements and keep pace with the demand over the long term. As a result, the high levels of substandard housing and overcrowding are expected to continue.

Indian and Northern Affairs Canada, Canada Mortgage and Housing Corporation, and Health Canada have responded. The Department accepts all the recommendations and states that it will co-operate with First Nations, CMHC, and other federal departments to develop strategies to improve housing conditions on reserves.

Canada Mortgage and Housing Corporation accepts most recommendations, and states that it will continue to work with First Nations and the Department to address the issues raised in the report. CMHC believes its role is clear and its programs have clearly defined objectives. It also believes that the responsibility for meeting the National Building Code rests with First Nations.

Health Canada agrees with the recommendation directed to it.



National Defence

Environmental Stewardship of Military Training and Test Areas

Chapter 7 Main Points

- 7.1 The Department of National Defence has areas that have been set aside for testing and for training military personnel. While it is expected that the nature of these activities can be damaging to the environment, it is also understood that the military must continue its training. Nevertheless, National Defence must comply with federal legislation protecting the environment. We found that in some cases, training-related activities did not comply with certain federal legislation, indicating that the Department did not use due diligence in those cases.
- 7.2 The Department needs to better demonstrate its environmental stewardship of Crown lands by showing that it has integrated environmental concerns into its training and test activities and taken timely action to mitigate the impacts of these activities. It has a protocol to address environmental concerns, developed in 1996, that it has started to implement but it still needs to take action on mitigation, restoration, monitoring, and follow-up plans.
- 7.3 In some cases, National Defence has continued to train on lands identified as sensitive or unsuitable for military training, even though it has known as far back as 1988 that some areas were unsuitable. The Department needs to address the use of stressed and overused areas. An overall approach to how land is used for training is needed to ensure the sustained use of training and test areas.
- 7.4 The Department does not have an action plan for managing sites potentially contaminated with energetic material from live firing of munitions. Recent research has shown that there is a potential for contamination from the live firing of munitions. The Department has begun work to identify sites that are contaminated and it needs to continue this work so it can determine what action it must take to deal with these sites. It also needs to resolve some confusion in the categorizing of contaminated sites and in determining its liabilities for them.

Background and other observations

- 7.5 The Canadian Forces must be ready to defend Canada and Canadian interests while contributing to international peace and security. In order to be ready, it has bases across the country where it trains personnel and tests equipment and munitions.
- 7.6 The military needs to do training and testing activities in conditions that are as realistic as possible. These activities can often be damaging to the

immediate environment. Therefore, it is the responsibility and challenge of National Defence to ensure that damage is mitigated and to manage the land so training activities can continue in the future. National Defence has committed to practising sustainable development and protecting the environment as it conducts its activities.

7.7 The sustainable development concept was first defined in 1987 by the Brundtland Commission Report of the World Commission on Environment and Development. It is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

The Department has responded. The Department is satisfied with the accuracy of the chapter but does consider that some of the case studies only serve to illustrate what happened in the past. The Department has committed to reviewing its progress in the areas noted in the chapter and to continue work already underway.

Report of the Auditor General of Canada to the House of Commons—April 2003

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2003



Report of the
Auditor General
of Canada
to the House of Commons

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Chapter 1 Integrated Risk Management







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Chapter 1
Integrated Risk Management









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The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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Chapter

Integrated Risk Management

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Integrated Risk Management

Main Points

- 1.1 In the six departments that we audited, senior executives have taken some of the early steps that demonstrate their commitment to integrated risk management. Their sustained and visible support over time will be needed to obtain the support of managers and staff that is crucial to the initiative's success.
- 1.2 Any initiative such as integrated risk management that calls for significant change requires a well-developed action plan to guide its progress. Despite their importance, action plans in all six of the departments we examined were missing important elements needed to implement integrated risk management department-wide. Where sound action plans are lacking, we are concerned that the integrated risk management initiative could drift—despite the high priority placed on implementing the Integrated Risk Management Framework as a key element of both modern comptrollership and improved reporting to Parliament.
- 1.3 Risk profiling, another essential element of integrated risk management, includes the critical step of defining an organization's tolerance for risk. No department that we audited had a fully developed profile clearly indicating the level of risk that senior management was prepared to tolerate throughout the department. The development of risk tolerances assists departments in integrating risk management into their operations. Without clearly established risk tolerances, some managers may choose to avoid risk entirely, preferring the status quo; others may take greater risks than senior management is willing to accept.
- 1.4 In two of the departments we audited, internal audit has been made responsible and accountable for implementing significant components of the integrated risk management initiative on behalf of senior management. In our view, the close involvement of internal audit in implementing the initiative may compromise its ability in the future to provide objective, independent advice and assurance on the effectiveness of integrated risk management in the department.
- 1.5 The Treasury Board Secretariat has produced initial material to help departments start implementing the initiative. However, departments will need more practical guidance on how to carry out specific key steps toward integrating risk management into their management culture.

Background and other observations

- Integrated risk management means incorporating risk information into the strategic direction-setting of the organization and making decisions that consider the department's established risk tolerance limits. Stronger risk management practices across the federal government are essential to managing resources more effectively, making better decisions, and ultimately improving the effectiveness of the public service.
- The Treasury Board Secretariat published the Integrated Risk Management Framework in April 2001 as part of modern comptrollership, an initiative designed to strengthen management capabilities in departments and agencies.
- This Framework describes risk management as the practices and procedures that an organization uses to manage the risks it faces; risk is defined as the uncertainty that surrounds future events and outcomes. Risk is the expression of the likelihood and impact of a future event with the potential to influence the achievement of the organization's objectives.
- Departments, like many organizations, are at the initial stages of developing their integrated risk management practices. While departments have taken some positive first steps toward integrated risk management, much remains to be done.
- Integrated risk management has a role to play in making the public service more effective. It contributes to better program management and delivery and better value for money. In addition, it helps departments make more informed decisions in managing the environmental, strategic, operational, political and financial risks that are under their control, and it should position them better to respond to those risks that are beyond their control.
- Generally, we noted a lack of concerted effort across departments to co-ordinate and communicate key information on the initiative. We also found little evidence that departments had made much progress in assessing their capacity for integrated risk management.
- We noted that departments had done little or nothing to lay the foundation for monitoring and evaluating activities under the initiative.

The Treasury Board Secretariat has responded. The Secretariat has indicated the actions it has planned or has under way to address the recommendations. Its detailed response follows each recommendation throughout the chapter.

Introduction

- 1.13 Risk management refers to the practices and procedures that an organization uses to manage the risks it faces. Risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of a future event with the potential to influence the achievement of the organization's objectives.
- 1.14 Risk management capabilities vary greatly. At one end of the spectrum organizations rely on crisis management to address the risks that they face. They react to events after they have occurred. At the other end of the spectrum, organizations have strong management practices that allow them to incorporate integrated risk management in both their day-to-day management activities and their setting of strategic direction. This continuum of risk management is depicted in Exhibit 1.1.

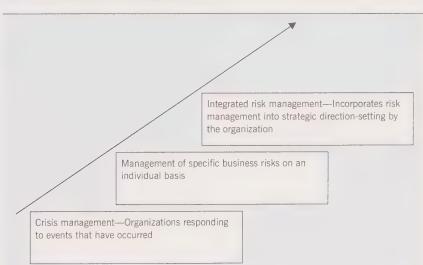


Exhibit 1.1 Continuum of risk management

- 1.15 For example, how a department responded to the Year 2000 computer issue can illustrate the various risk management responses depicted in Exhibit 1.1. A department that had waited to see if a system would crash in the new millennium would have exhibited crisis management—by responding to an event after it occurred. A department managing specific business risks would have assessed each system and made the necessary changes. A department using integrated risk management would not only have made the changes necessary to respond to the Year 2000 issue but would also have taken the opportunity to re-engineer its business processes and strengthen the capacity of the department to meet its strategic objectives in the new millennium.
- 1.16 Integrated risk management extends risk management practices throughout the organization's structures, processes, and culture. It

incorporates and aligns risk management with business planning, the setting of objectives, decision making, and other management activities of the organization. It considers environmental, strategic, operational, and financial risks across the organization and management's assessment of the effects of associated hazards and uncertainties on the objectives of key stakeholders.

1.17 In the Canadian system of government, ministers are responsible for what is done in and by their departments. Thus, decision-making in departments and the various agencies over which ministers have authority, on almost every matter of consequence, involves ministers directly or indirectly. This is the larger democratic context within which public service managers make decisions, manage programs, and identify and manage the risks that affect the achievement of the department's strategic objectives.

Risk management is a key component of modern comptrollership

- 1.18 The federal government's modern comptrollership initiative began in 1997 with the creation of an independent review panel to examine comptrollership in the central agencies of the government and in its operating departments.
- 1.19 In 1997, the panel issued its *Report on the Modernization of*Comptrollership in the Government of Canada. The report noted that modern comptrollership is a management reform focussed on the sound management of resources and effective decision making. Modern comptrollership requires managers and financial specialists to co-ordinate the work of prioritizing, planning, and meeting operational goals and achieving desired results. It brings information from many sources into a meaningful whole and communicates that information to those who need it. Modern comptrollership involves not only financial officers in departments but all managers, and it goes beyond financial accountability.
- 1.20 The Report set out four key elements of modern comptrollership:
 - integrated performance information (financial and non-financial, historical, and prospective);
 - a sound approach to risk management;
 - · appropriate control systems; and
 - a shared set of ethical practices and organizational values, beyond legal compliance.
- 1.21 Exhibit 1.2 sets out some of the key events in the federal government's development and implementation of integrated risk management.

Integrated risk management is essential to an effective public service

1.22 The broad objective of modern comptrollership is to enable departments and agencies to manage more effectively, with risk management as one of four key elements. Integrated risk management represents an approach that contributes significantly to better management in the public service by dealing with risk systematically.

Exhibit 1.2 Key events toward integrated risk management

April 1994	Risk Management Policy revised		
October 1997	Report on the Modernization of Comptrollership published		
April 1999	Treasury Board Secretariat's Best Practices in Risk Management: Private and Public Sectors		
March 2000	Results for Canadians report published		
March 2000	Privy Council Office's Risk Management for Canada and Canadians—Report of the ADM Working Group on Risk Management		
April 2001	Integrated Risk Management Framework published		
April 2001	A Foundation for Developing Risk Management Learning Strategies in the Public Service published by the Canadian Centre for Management Development Round Table on Risk Management		
September 2001	Implementation Council for the Integrated Risk Management Framework established		
December 2001	Inventory of federal risk management tools and departmental training		
July 2002	Treasury Board Secretariat's risk management Web site established		
August 2002	Modern comptrollership, which includes risk management, identified as a corporate priority by the Clerk of the Privy Council		

- 1.23 The ability to manage risk is one attribute of an effective public service. By managing risk, a department can increase the certainty that its programs and activities will meet their objectives. To the extent that integrated risk management contributes to better management and delivery of programs and better value for money, it clearly has a role in making the public service more effective.
- 1.24 Integrated or enterprise risk management will help departments make more informed decisions in managing the environmental, strategic, operational, political, and financial risks that are within their control and will position them to better respond to risks that are beyond their control. Integrated risk management will also give departments a framework within which they can set out in their reports on plans and priorities the key risks they face in delivering programs to Canadians; and in their departmental performance reports they can account for how they have managed those risks.
- 1.25 Integrated risk management entails managing risk and control activities across an organization; the two are inextricably linked. Control includes management actions to manage and/or mitigate risk to an acceptable level while supporting the organization's objectives.

The Integrated Risk Management Framework

- The Integrated Risk Management Framework published by the Treasury Board Secretariat in April 2001 provides departments with guidance on implementing a department-wide, and ultimately government-wide, systematic approach to risk management. The Framework comprises four interrelated elements: developing a corporate risk profile; establishing an integrated risk management function; practising integrated risk management; and ensuring continuous risk management.
- The implementation of the Framework's principles promotes the building of a "risk-smart" workforce and the creation of an environment that allows for innovation and responsible risk-taking. The same principles are designed to ensure that departments will take precautions to protect the public interest, maintain public trust, and exercise due diligence. The Framework proposes a set of risk management practices that departments can adopt or adapt to their specific circumstances and mandates.
- Exhibit 1.3 summarizes the roles and responsibilities for integrated risk management under the Framework.

Focus of the audit

- This audit continued our examination of the government's progress toward modern comptrollership. Our October 2000 Report, Chapter 13, assessed the financial management capabilities of five departments. Our April 2002 Report, Chapter 7, discussed the adequacy of the strategies and plans that seven departments had developed to achieve the objectives of the government's modern comptrollership initiative. In 1999 and 2001 we reported on the implementation of the government's financial information
- Our objective in the current audit was to assess the adequacy of departmental efforts to implement the Integrated Risk Management Framework developed by the Treasury Board Secretariat. We also considered what improvements departments needed to make in their strategies to increase the likelihood of successfully initiating integrated risk management.
- We considered the roles that internal audit and the Treasury Board Secretariat play in promoting sound practices of integrated risk management in departments.
- We included six departments in the audit:
 - Canadian Heritage
 - Human Resources Development Canada
 - Indian and Northern Affairs Canada
 - Treasury Board Secretariat
 - Transport Canada
 - Veterans Affairs Canada

Exhibit 1.3 Responsibilities for integrated risk management

Treasury Board Secretariat

- · Communicate and explain integrated risk management
- Provide guidance, training, and a centre of expertise to support integrated risk management and reporting on best practices
- Provide the Treasury Board, other central agencies, and Parliament with risk management information and advice appropriate to their responsibilities
- Examine and evaluate periodically the effectiveness of integrated risk management government-wide
- · Monitor and report progress

Departments

· Implement integrated risk management

Deputy heads

- Set the tone from the top that systematic and integrated risk management is valuable for understanding uncertainty in decision-making and for demonstrating accountability to stakeholders
- Determine the best way to implement integrated risk management in their organizations
- Ensure from a corporate perspective that risks are prioritized and appropriate risk management strategies are in place to manage the identified risks
- Ensure that the capacity to report on the performance of the risk management function is developed and working effectively

Senior management

- Integrate risk management into overall departmental strategy and management frameworks
- Provide managers and employees with training and learning opportunities to build the required competencies
- Allocate resources for investment in more systematic risk management

Middle management and specialists

- Integrate risk management into their decision making
- Ensure ongoing operational and corporate action, planning, training, control, monitoring, and documentation of risk management
- Ensure that policy and related advice, guidance, and assistance are in line with central agency and departmental policies on risk management and with senior management's objectives
- Identify and assess risk and the effectiveness, efficiency, and economy of existing measures to manage risk
- Design and implement tools for more effective risk management

Internal audit

 Provide assurance to deputy heads on the adequacy of their departments' assessment and management of risks

Source: Treasury Board Secretariat's Integrated Risk Management Framework, April 2001

- We assessed the Treasury Board Secretariat's role in providing overall strategic direction on implementing the Integrated Risk Management Framework, and we examined the nature and extent of guidance and advice it has provided to departments. Finally, we assessed how the Secretariat monitors departments' progress in adopting and adapting the Integrated Risk Management Framework. Further details are provided at the end of the chapter, in About the Audit.
- Our work to support this chapter included identifying best practices in the federal government, in public sector organizations of other jurisdictions, and in private sector organizations. A synthesis of the best practices we noted is set out in exhibits throughout the chapter.

Observations and Recommendations

Common factors in successful integrated risk management

- In our reviews of good practices and lessons learned by organizations outside the federal government, we identified a number of factors that contribute to the successful implementation of integrated risk management:
 - Senior management support. Senior management must lend its full support to developing and implementing an integrated risk management framework. Senior managers need to agree on the risk management framework, the value of risk management, and their respective roles. They have to demonstrate their support by committing appropriate resources and sending appropriate messages throughout the organization.
 - A common strategy and framework. Organizations must develop an integrated risk management strategy and framework across their business units and processes as a basis for developing a common language on risk and making consistent decisions in managing and taking risks. Organizations that do not spend enough effort on developing a framework are likely to end up with a fragmented approach to risk management: each business unit will likely develop its own approach to both implementing a risk management framework and responding to risks.
 - Clearly assigned responsibility for implementing integrated risk management. Organizations that do not assign responsibility for integrated risk management clearly to individuals realize little benefit from this valuable tool and make little progress in implementing it. Though an organization can invest significant effort in developing an integrated risk management framework, if it does not assign responsibility clearly it will make neither the plans nor the changes needed to support the initiative. Management needs to identify a champion who is responsible for driving the changes needed to implement the framework. The champion needs the authority to make the changes and establish mechanisms (such as a steering committee and reporting processes) to implement integrated risk management across the organization.

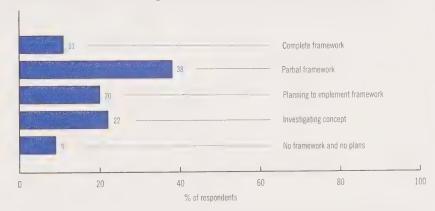
Taking a continuous approach. Integrated risk management is not a
one-time activity. It entails establishing a framework and a process to
identify and manage risks on an ongoing basis. Accordingly, a process for
regularly updating risk assessments and the strategies for mitigating risks
is critical.

These factors were considered as we assessed departmental efforts to develop integrated risk management capabilities. We have incorporated more detailed examples of these better practices into exhibits included in this chapter.

Departmental efforts to develop capabilities

1.36 Departments, like many organizations, are at the initial stages of developing capabilities for integrated risk management. Exhibit 1.4 outlines how respondents in a recent survey by the Institute of Internal Auditors Research Foundation characterized the status of the enterprise risk management initiatives in their organizations. The survey indicated that only 11 percent of organizations reported having a full enterprise (or integrated) risk management system in place, while the majority of organizations are at different stages of implementing such a framework. Departmental progress in implementing integrated risk management that we noted in our audit is similar to results reported in this survey.

Exhibit 1.4 Survey by Institute of Internal Auditors Research Foundation: How respondents characterized the status of their organizations' frameworks for enterprise risk management



Source: Enterprise Risk Management: Trends and Emerging Practices, The Institute of Internal Auditors Research Foundation, 2001

- 1.37 We assessed the following dimensions of departmental efforts to implement the Treasury Board Secretariat's Integrated Risk Management Framework:
 - the commitment and leadership of senior management;
 - action plans for implementing integrated risk management;
 - departmental risk profiling;
 - efforts to build a capacity for integrated risk management; and
 - monitoring and evaluation mechanisms.

More visible commitment and leadership needed from senior management

- 1.38 The clear, visible, and active commitment and leadership of senior management are critical to establishing integrated risk management throughout a department. As a prerequisite for success, senior management must take on the agenda for integrated risk management as its own and make it a strategic priority of the department. Because risk is usually not confined to one or a few departmental activities or programs, the strategic, department-wide perspective of senior management is indispensable. The departmental executive who "champions" integrated risk management needs to understand the department's culture and its strategic direction. Involvement of individual business units and processes across the department is also critical to developing a common language and an integrated approach to risk management.
- 1.39 Moreover, only a senior official has the authority to offer managers and employees incentives for accepting and applying the principles of integrated risk management day to day and developing a "risk-smart" philosophy.
- 1.40 We expected at this early stage of the initiative that senior management in departments would have begun to communicate the broad principles of integrated risk management to managers and employees and describe its potential for improving the management of the department.
- 1.41 Five of the six departments we audited have made an assistant deputy minister (ADM) responsible for overseeing the implementation of integrated risk management. In the sixth department, the associate deputy minister was made responsible for overseeing the initiative.
- 1.42 In one department, Human Resources Development Canada (HRDC), senior management has begun to raise employees' awareness of the initiative throughout the organization. As an early step, HRDC has asked all ADMs to identify and discuss the operational risks in their areas of responsibility. It has also given all ADMs the responsibility and authority to embed the integrated risk management initiative in their respective programs and activities.
- 1.43 Veterans Affairs Canada has also made good initial progress. For example, it has an approved Integrated Management of Risk Framework and has taken a number of steps to move integrated risk management to the operational level.
- 1.44 We also found that ADMs in three departments have not demonstrated a strong, overt position as the champions of integrated risk management; they have played only a limited role in furthering the initiative. For example, in Transport Canada, there has been little follow-up work on integrated risk management, in part because of competing priorities in the Department.
- 1.45 Widespread support and acceptance are critical to successfully introducing initiatives such as integrated risk management that call for change. Best practices and experience with integrated risk management in both the public and the private sectors show that unless senior management

cultivates that support and acceptance throughout the organization, there is a risk that it will not take root but instead remain largely a paper exercise.

1.46 Exhibit 1.5 lists some of the best practices in integrated risk management that show commitment and leadership from senior management.

Exhibit 1.5 Tone from the top

Best practices we identified include the following:

- A clear commitment to the development and use of integrated risk management at the departmental level
- Appointment of an integrated risk management champion from the executive levels
 of management who has responsibility for establishing integrated risk management
 throughout the department
- · Assignment of the necessary resources
- · Monitoring progress in implementing the integrated risk management initiative
- Senior management membership on the department's risk management committee
- Senior management's visible and direct involvement in and commitment to the development and maintenance of a departmental risk profile
- A clear message from senior management about the importance of identifying and managing those risks that impact on the achievement of the department's strategic objectives
- 1.47 If senior management fails to foster the development of integrated risk management, it will sacrifice the initiative's potential to contribute to more effective management practices.
- 1.48 Recommendation. Senior management in each department and agency of the government should visibly and actively demonstrate clear, sustained commitment and leadership to ensure the successful implementation of integrated risk management. This should include such things as assigning adequate resources, monitoring the progress of implementation against an approved plan, and demanding risk-based information to support strategic decision making.

Treasury Board Secretariat's response. The government's Integrated Risk Management Framework recognizes that clear and visible senior management commitment and leadership are essential in building a foundation for successful implementation of integrated risk management. The Secretariat will continue to encourage departments and agencies to identify a risk champion at the senior management level who is strategically placed to lead implementation of an integrated approach to risk management in the organization.

Departments need well-developed action plans for integrating risk management into their operations

- 1.49 Risk management has been identified as a fundamental element of modern comptrollership. An important step to achieving modern comptrollership includes converting the requirements of the Integrated Risk Management Framework into an action plan that articulates the end goals and the measures that will be used to demonstrate their achievement.
- 1.50 A department needs to have an action plan for implementing integrated risk management that indicates to senior management how the department will proceed—who is responsible for doing what, the sequence and timing of key activities, the nature and extent of the resources required, and how these activities relate to management's other initiatives and priorities. The action plan should also describe the intended results and outcomes of the integrated risk management initiative, the type of people needed to achieve them, and the costs. Such a plan would provide a basis for monitoring progress and making any changes needed to mitigate problems or risks as they emerge.
- 1.51 A sound, carefully prepared action plan is a prerequisite to managing any significant initiative and reducing the associated risk. An action plan increases the likelihood that the initiative will succeed and at a reasonable cost. An action plan establishes clear responsibility for the initiative, provides a basis for assessing whether adequate resources have been assigned to the task, and establishes a basis against which departments can monitor and report on progress.
- 1.52 To complement their work on modern comptrollership, the Treasury Board Secretariat has provided departments with draft guidance on developing their action plans for integrated risk management. This guidance requires departments to include in their action plans such things as desired outcomes, concrete activities for delivering the desired outcomes, distinct responsibilities, clear timelines, and reporting on the progress to date of actions realized against desired outcomes.
- 1.53 None of the six departments we audited had an action plan that met all the criteria set out in the Secretariat's guidelines. Only two of the six (Treasury Board Secretariat and Veterans Affairs Canada) had any action plan, but those lacked key information such as who was responsible for carrying out specific tasks and what the schedule was for completing them. Of note is that these two plans did not specify in any detail the resources (people and money) that would be needed to implement integrated risk management. Of the six departments we audited, Veterans Affairs Canada had the most complete action plan: one that contained some 30 projects with specified delivery dates. The plan also included planned outcomes and performance indicators for the initiative.
- 1.54 Exhibit 1.6 illustrates some of the best practices we noted in the development of action plans for integrated risk management.

Exhibit 1.6 Action plans—Best practices

Establish a strategic integrated risk management process that integrates the department's mission, strategic objectives, operating unit plans, and day-to-day activities.

Identify and assess risks associated with the department's activities.

- Do an environmental scan to identify key internal and external risks associated with the department's activities.
- · Use workshops with senior management to identify corporate risks.

Select integrated risk management strategies.

- Align the initiative with other management initiatives and priorities.
- Establish intended results and outcomes of the initiative.
- Develop a database that includes identified risks, risk mitigation plans, and departmental risk profiles.

Implement an integrated risk management action plan.

- Appoint and train co-ordinators to oversee implementation.
- Identify individuals who are responsible for elements of the work plan.
- · Determine the nature and extent of resources required.

Report on integated risk management and controls.

• Report progress on implementing the initiative and explain any variances.

Monitor integrated risk management performance.

- Monitor progress and make any changes needed to mitigate problems or risks as they emerge.
- · Revise and update strategy as needed.
- 1.55 Because an action plan is a critical early step in making integrated risk management a reality, we are concerned that the departments in our audit had no such plans or had incomplete plans, restricted to particular departmental activities.
- 1.56 Recommendation. The associate or assistant deputy minister responsible for implementing integrated risk management in each department should ensure that an action plan is developed that sets out for senior management how the department plans to implement the initiative. The plan should, as stipulated in the Treasury Board Secretariat's guidance, prioritize activities, assign responsibility and authority, identify levels and kinds of resources needed, set out timelines to implement integrated risk management department-wide, and identify how it integrates with other departmental improvement initiatives.

Treasury Board Secretariat's response. The Secretariat agrees that the development of action plans, which elaborate the department's strategy and work plans, is an important step in successfully implementing integrated risk management. The Secretariat has released guidance for elaborating the integrated risk management component of modern comptrollership action plans; this guidance complements existing direction to departments in

developing modern comptrollership action plans. The Secretariat is encouraging departments and agencies to make their modern comptrollership action plan an integral part of their management improvement agenda.

Departments have made progress in developing departmental risk profiles

- 1.57 Departmental risk profiling, a critical ongoing part of managing risk in any department, involves
 - formally and explicitly identifying the risks associated with achieving objectives at all levels and in all operations of a department;
 - assessing the potential outcomes for the department should a particular event or situation not occur as planned;
 - determining how the department will respond to identified risks—accept, manage, or ignore the risk;
 - defining how much risk the department will accept—risk tolerance—given what it is trying to achieve; and
 - ensuring that all managers and staff in the department understand the department's risk tolerance so they can act accordingly.
- 1.58 Taken together, these elements of departmental risk profiling are the core and foundation of integrated risk management. They represent the systematic steps toward risk-smart managing.
- 1.59 The benefits of establishing risk tolerances include the following:
 - Consistency throughout the department. If a department does not formally establish limits for risk tolerance, people will develop them informally and they will seldom be consistent. Informal development of risk tolerance can encourage people to set or define their own acceptable limits, and resources will be allocated differently by each person.
 - Consistent management response. Establishing a common understanding of risk tolerance provides a stronger basis for departmental managers to choose an appropriate response to risk. They can select responses that achieve the desired results using the least resources.
 - Resource allocation guided by risk tolerance. In responding to areas
 where the potential consequences of risks exceed the department's limits
 of risk tolerance, resources may be reallocated to areas where further
 management action is needed to reduce potential consequences to
 within the department's established tolerance limits.
- 1.60 The six departments in our audit differed in their approaches to departmental risk profiling. All six told us they had been taking account of risk informally, case by case, long before the Secretariat published its Integrated Risk Management Framework. We noted at the time of our audit that none had a fully developed departmental risk profile.
- 1.61 Nevertheless, some departments have made a start at risk profiling. Except for not explicitly stating its risk tolerance levels, HRDC has dealt with

most of the elements of risk profiling. Veterans Affairs Canada has included risk profiling in its management-of-risk framework and has a draft document covering risk tolerance. Three other departments are either developing or drafting risk profile documents. One department, Transport Canada, has no formal risk profile. However, it does manage risk in various operational areas, and profiling is implicit in that activity.

1.62 Exhibit 1.7 describes some of the best practices we noted in risk profiling.

Exhibit 1.7 Risk profiling

Best practices we identified include the development and maintenance, with direct senior management involvement, of the departmental risk profile as one of the key strategic risk documents.

The departmental risk profile

- identifies the risks most likely to affect the department's achievement of objectives,
- prioritizes risks so management's attention focusses on the most significant areas, and
- considers the adequacy of management controls surrounding the identified risks.
- 1.63 Program managers who lack a clear understanding of the acceptable boundaries of risk in their department may avoid taking any risks at all. A preference for avoiding risk can stifle innovation and creativity; the status quo will continue. Other managers in the same department may have a larger appetite for risk and could engage in various risky behaviours. Taking too many risks can lead to public embarrassment, financial loss, or exposure to liability.
- 1.64 Good integrated risk management means making decisions on risk that fall within the department's prescribed "risk appetite" or risk tolerance limits. In our view, completing their departmental risk profiles and identifying acceptable levels of risk must be a priority for departments. Completing departmental risk profiles without delay and continually reviewing them to ensure that they remain relevant to the department's objectives will help departments make better progress toward integrated risk management.
- 1.65 Recommendation. Senior management in departments and agencies should ensure that a departmental risk profile is developed that identifies and assesses the key risks and challenges of the department and the level of risk it is willing to accept. The departmental risk profile should communicate the risks and the tolerance levels to managers and staff so they understand the boundaries or limits within which they are expected to manage risk.

Treasury Board Secretariat's response. A corporate risk profile is one of the four related elements of the government's Integrated Risk Management Framework and is fundamental to establishing an organization-wide approach to managing risk. The corporate risk profile is expected to provide departments and agencies with a clear understanding of their operating

environment, including the communication of key risks facing the organization and an appreciation of the risk tolerances of key stakeholders. The Secretariat encourages departments and agencies to focus on the development of a corporate risk profile as one of the initial steps in implementing integrated risk management.

Building capacity in departments

- 1.66 Capacity building refers to developing the people, skills, tools, and processes needed to help departments continually improve the way they operate. In any department, the foundation for building the capacity to improve and innovate includes three key steps:
 - developing a communications strategy to ensure that people are aware of a change and know why management is introducing it;
 - taking stock of the current capacity—people, skills, and knowledge—to manage the change; and
 - building or acquiring the competencies, systems, and processes that the department will need to make the change work.
- 1.67 Communications strategy. To succeed with any initiative such as integrated risk management that calls for change, senior management must develop an appropriate, properly targeted communications strategy. Well-designed communications will be key to generating awareness, understanding, and acceptance of the integrated risk management initiative across the department. The communications strategy must demonstrate to managers and staff how integrated risk management can benefit them in their day-to-day work. The right strategy can also explain their role in implementing integrated risk management and the linkage of integrated risk management to other initiatives such as modern comptrollership. The communication strategy has to signal management's resolve and commitment to see this initiative succeed.
- 1.68 Four of the six departments in our audit have developed awareness sessions primarily for all managers. Another provided an awareness program for senior management. The sixth department has no program at all for explaining integrated risk management to staff and encouraging them to accept it as a positive initiative.
- 1.69 Generally, we noted a lack of concerted effort to co-ordinate and communicate key information across departments on integrated risk management. Indian and Northern Affairs Canada has a draft communications plan for the initiative but has not yet budgeted for implementing the plan.
- 1.70 We noted that the Treasury Board Secretariat has provided training and awareness sessions to staff. It has developed other communication training tools such as a draft managers' handbook and a toolkit to complement the Integrated Risk Management Framework. Veterans Affairs Canada has held sessions for most managers on integrated risk management. That department has made integrated risk management a priority since

undergoing the Modern Comptrollership Capacity Check in September 2000. Indian and Northern Affairs Canada developed a risk management workshop in spring 2002 for trainers who would provide training in risk management throughout the Department.

- 1.71 Taking stock of current capacity. The second step in building capacity is a self-assessment exercise. The self-assessment enables senior management to identify gaps in skills and knowledge that the department will have to fill in order to implement integrated risk management. It entails examining the department's systems and practices critically to determine where changes will have to be made.
- 1.72 Once the department understands the gap it must fill to achieve the appropriate capability, it can turn to the third step—building or acquiring the skills and knowledge it lacks so it can make the necessary changes in its systems and processes. This may include providing formal or on-the-job training, recruiting new people, creating opportunities to learn about and share best practices, and developing centres of expertise.
- 1.73 In five of the six departments we looked at, we found little or no evidence of progress in assessing their capacity to implement integrated risk management. We acknowledge that it may be too early for some departments to have made that assessment. However, HRDC was developing a self-diagnostic tool to help managers assess their current capacity for risk management. This tool represents a useful beginning.
- 1.74 Building or acquiring the needed competencies. At this stage of the initiative most departments have not yet worked through the earlier step of assessing the people, training, systems, and processes they will need.
- 1.75 Exhibit 1.8 describes some of the best practices we noted in capacity building.
- 1.76 Recommendation. Senior management in departments and agencies should ensure that they assess their current capacity to implement and maintain integrated risk management practices and should develop the learning plans and strategies needed to improve and maintain the necessary competencies.

Treasury Board Secretariat's response. The government's Integrated Risk Management Framework highlights the building and sustaining of organizational capacity as a factor in successful implementation. The Secretariat identifies capacity building as an initial area of focus for departments and agencies that are beginning the implementation of an integrated approach to managing risk. While integrated risk management is a new approach to managing corporate risks in the federal public service, existing departmental risk management practices can be used as a starting point to build integrated risk management capacity. At the time of this audit, more than 50 departments and agencies have already used the modern comptrollership capacity assessment tool to provide a high-level assessment of existing capacity for implementing integrated risk management. The cumulative results of these capacity assessments also provide the Secretariat with valuable information to

develop tools and guidance to address the gaps in the system and build and improve the necessary competencies.

Exhibit 1.8 Capacity building

Best practices include the following:

Training and development programs as an integral part of developing a "risk-smart" culture. Training and development programs in integrated risk management should

- · be an ongoing part of the corporate training program,
- include the identification and development of the competencies that are expected of employees and that will be needed to adequately identify and manage risks, and
- include such topics as the department's culture, risk assessment framework and processes, legislative requirements, departmental strategic objectives, lessons learned, and the department's practices for managing risk.

Formal processes for sharing lessons learned within the department as a mechanism for integrating a common language around issues of integrated risk management and consistent approaches to identifying and measuring the likely impact of risks.

The use of the Intranet to communicate key integrated risk management information such as the integrated risk management policy and framework and the corporate risk profile.

Risk management incorporated into departmental planning and reporting practices. This not only improves departmental planning but also conveys the ongoing importance of integrated risk management information to senior management.

Monitoring and evaluation

1.77 Though departments are in the early stages of the integrated risk management initiative, we expected that they would be providing senior management and the Treasury Board Secretariat with up-to-date information on their progress. Such information would alert senior management to emerging problems and enable it to make timely corrections.

1.78 In the absence of action plans that would provide a basis for reporting on progress, reporting is largely informal. At the time of our audit, it consisted mainly of discussions, meetings, and presentations that focussed on particular activities related to integrated risk management. Departments were unable to show their progress in integrating and embedding risk management into their strategic and day-to-day activities. Neither the Treasury Board Secretariat nor departmental senior management were receiving the information needed to gauge the progress of integrated risk management or to manage any emerging risks associated with this initiative, despite the priority that the Treasury Board and the Clerk of the Privy Council have given the initiative. We noted that departmental performance reports did not include, as part of reporting on the modern comptrollership initiative, significant information on the department's progress in implementing integrated risk management.

1.79 Only two departments in our audit—HRDC and Veterans Affairs Canada -have clearly identifiable monitoring and evaluation activities. HRDC's are largely informal, such as debriefings at committee meetings.

Veterans Affairs has embedded monitoring and evaluation in its plan for implementing integrated risk management. We found that the Department has done some useful preliminary work, such as specifying outcomes and performance indicators that could be used in future audits and evaluations. The remaining four departments have not taken the necessary steps to lay the foundation for monitoring and evaluating integrated risk management activities.

1.80 Exhibit 1.9 describes some of the best practices we noted for monitoring and evaluating the integrated risk management system.

Exhibit 1.9 Monitoring and evaluation

Examples of best practices:

- Internal audits include assessments of the adequacy of monitoring and reporting on the use of integrated risk management.
- All levels of management monitor continuously, through both formal and informal mechanisms, the effectiveness of the integrated risk management initiative and the use of risk information.
- The department monitors progress in implementing the integrated risk management initiative against an established work plan and obtains explanations for any departures from agreed-upon timelines and resource requirements.
- **1.81 Recommendation.** Once action plans are developed, senior management in departments and agencies should ensure that they monitor progress against them and take corrective action as needed. Departments should report their progress in their departmental performance reports.

Treasury Board Secretariat's response. The Secretariat agrees with the importance of monitoring against action plans and reporting on progress. The principal instrument for reporting to Parliament is the departmental performance report; current guidelines ask departments to report on modern comptrollership in departmental performance reports.

The role of internal audit

Internal audit must safeguard its independence and objectivity

- 1.82 The primary role of internal audit is to examine an organization's systems and processes and provide senior management with objective, independent assurance on how well they are working. In risk management, the primary role of a department's internal audit function is to provide senior management with assurance that the department has identified its key risks. Internal audit also provides an opinion on whether the department has appropriate controls, practices, and procedures both to minimize the risk that an adverse event will occur and to reduce the potential consequences if it does.
- 1.83 Internal audit may also play a consultative role—for example, advising on the design of a department's control framework or the completeness and adequacy of risk assessments by management. In doing so, however, internal

auditors must exercise considerable care to ensure that they do not compromise their independence and objectivity.

We recognize that internal audit, through its consulting services, can make an important contribution to achieving a department's risk management objectives. However, where internal audit is taking a lead role in implementing integrated risk management, we would expect to see a clear strategy showing how and when the department intends to shift responsibility for the integrated risk management initiative from internal audit to departmental management. Ultimately, it is management's responsibility to ensure that risks are identified and managed within the risk tolerance limits established by the department.

The internal audit role varied considerably in the departments we audited

- In three of the six departments we audited (Human Resources Development Canada, Indian and Northern Affairs Canada, and Canadian Heritage), internal audit was leading or sharing the lead responsibility for the implementation of integrated risk management. In our view, such a role for internal audit in the implementation process may compromise its future ability to provide objective, independent advice and assurance on the effectiveness of the department's risk management practices.
- In departments where internal audit has taken a lead role in the integrated risk management initiative, we did not find that departmental plans established a clear strategy or time frame for shifting the lead for this activity from internal audit to management.
- Recommendation. In providing consultative services, internal auditors in departments should ensure that they do not compromise their future independence and objectivity, which are critical to providing assurance to senior management. In the departments where internal audit is leading the integrated risk management initiative, departmental plans should contain a clear strategy with specific time frames for shifting the lead role for integrated risk management to departmental management.

Treasury Board Secretariat's response. The Secretariat recognizes the need for departmental internal auditors to maintain objectivity and provide independent advice and assurance on the effectiveness of integrated risk management within their organization. While a number of departments are being supported by their internal audit unit in the implementation of integrated risk management, the Secretariat believes that the responsibility and accountability for implementation nonetheless remains with

the treasury Boat I would be the

- 1.88 The Treasury Board Secretariat has begun an organized effort to add integrated risk management to the tools for managing more effectively across government. It is clearly responsible for helping departments incorporate integrated risk management into their day-to-day management practices by
 - supporting efforts to implement integrated risk management in departments,

- providing departments with a centre of expertise (the Risk Management Directorate) as a resource for integrated risk management, and
- monitoring and reporting on the progress and results of efforts to implement its Integrated Risk Management Framework.
- 1.89 The Secretariat also has a responsibility to ensure that risks have been considered and prioritized from a government-wide perspective in order to provide Treasury Board ministers, other central agencies, and Parliament with information and advice on risk management.

Supporting departmental efforts

- 1.90 The Secretariat has produced useful initial material to guide departments in introducing integrated risk management. However, they will need more guidance to embed the concept into their management practices.
- 1.91 In 2001 the Secretariat published a framework as a blueprint for implementing integrated risk management throughout the government. This framework provided a foundation for advancing risk management from an intuitive approach to a more rigorous exercise that adopts a departmental perspective about the risks associated with managing programs and activities in departments.
- 1.92 The Integrated Risk Management Framework explains what integrated risk management is. It provides an impetus for more work by departments. However, departments generally need more guidance on how to carry out specific steps that are central to integrated risk management—for example, two departments in our sample mentioned the need for practical guidance and support.
- 1.93 Recommendation. The Treasury Board Secretariat should provide departments and agencies with comprehensive guidance and specific tools to assist them in developing the key capabilities needed to integrate risk management successfully.

Treasury Board Secretariat's response. Recognizing that integrated risk management is a new approach to managing corporate risks, the Secretariat has and will continue to provide departments and agencies with ongoing support, guidance, and tools to raise awareness, build understanding, and support implementation of integrated risk management. The Secretariat is currently developing practical guidance to departments in implementing the concepts outlined in the Integrated Risk Management Framework. In addition, mechanisms are already in place, such as a risk management Web site and an Implementation Council, to promote sharing of experience and lessons learned. As departments have a vital role to play in taking ownership and responsibility for integrated risk management, the Secretariat acknowledges the leadership demonstrated by a number of departments and agencies in developing and sharing tools and guidance to build an integrated approach to risk management.

Providing a centre of expertise and monitoring progress

- 1.94 The Secretariat has established the Risk Management Directorate as a focal point for sharing information and best practices. The Directorate has participated in the development of introductory courses on the basic concepts of integrated risk management, offered by the Canadian Centre for Management Development and by Training and Development Canada.
- 1.95 As noted, another of the Directorate's responsibilities is to monitor and report to Treasury Board ministers on departments' progress in implementing integrated risk management. At the time of our audit, the Directorate was preparing its first progress report; annual progress reports are planned as part of the government's work on the modernization of comptrollership. In our April 2002 Report, Chapter 7, Strategies to Implement Modern Comptrollership, we recommended that the Treasury Board Secretariat provide Parliament with government-wide information on progress toward achieving modern comptrollership. We expect that this would include information on the implementation of the integrated risk management initiative.
- 1.96 As departments advance the integrated risk management initiative, the Directorate will need to broaden the scope of its monitoring to ensure that efforts remain on track and to obtain adequate information to support reporting to Parliament on government-wide progress. Integrated risk management is a necessary part of modern comptrollership and needs to advance along the same schedule.
- 1.97 Central agencies and Parliament need a broad perspective on the risks that affect government. Such information is necessary for making informed decisions, allocating resources among competing objectives of government, and managing risks from the perspective of the government as a whole. As set out in the Integrated Risk Management Framework, the Treasury Board Secretariat has a responsibility to provide central agencies with information about risk that meets their needs. At the time of our audit, the Secretariat had no plans to conduct a risk assessment and develop a corporate risk profile government-wide, nor had it identified key stakeholders across the government.
- 1.98 Recommendation. The Treasury Board Secretariat should ensure that information on key government-wide risks is provided to Treasury Board ministers, other central agencies, departments, and Parliament.

Treasury Board Secretariat's response. The Secretariat agrees with the importance of keeping Treasury Board ministers, central agencies, departments, and Parliament informed of key risks. Mechanisms exist to keep these parties, as well as the public, apprised of key risks and the Secretariat will continue to seek opportunities to further enhance the use of these mechanisms.

Conclusion

1.99 The integrated risk management initiative was begun to promote a risk-smart workforce—to create an environment that allows for innovation and responsible risk-taking while ensuring that departments take precautions to protect the public interest, maintain public trust, and ensure due diligence.

1.100 Federal government departments, like many organizations, are in the early stages of implementing integrated risk management. We found that while departments and the Treasury Board Secretariat have taken some good initial steps, they still have much to do. Strong leadership and sustained commitment from senior executives will be essential. Each department will need a well-developed action plan to guide its implementation of integrated risk management and provide a basis for measuring and reporting progress and holding people accountable for implementing integrated risk management. Action plans need to include departmental strategies for developing the necessary competencies in integrated risk management.

1.101 While departments have taken a number of steps to develop their departmental risk profiles, they need to define their levels of risk tolerance as part of this process. In the absence of clearly understood risk tolerance levels or boundaries of acceptable risk, it will be difficult to truly integrate risk management into daily operations. Some managers may choose to avoid risk entirely, preferring the status quo; others may take greater risks than senior management is willing to accept.

1.102 In supporting departmental efforts to implement integrated risk management, internal audit groups need to carefully balance their provision of consulting advice with the requirement to maintain their independence and objectivity. Independence and objectivity are essential to being able to provide senior management with the assurance that their departments' integrated risk management initiatives are adequate and complete. Where internal audit has taken a lead role in getting the integrated risk management initiative started, departmental strategies need to include a clear strategy for shifting responsibility to departmental management.

1.103 The Treasury Board Secretariat has produced initial material to help departments start implementing the initiative. However, departments require more practical guidance on how to carry out specific key steps toward integrating risk management into their management culture. The Treasury Board Secretariat also needs to ensure that risk information is consolidated government-wide and is available to Treasury Board ministers, other central agencies, departments, and Parliament.

About the Audit

Objectives

One objective of the audit was to assess the adequacy of steps that departments are taking to implement the Treasury Board Secretariat's Integrated Risk Management Framework. We also wanted to identify any need for improvement in departmental strategies to increase the likelihood that integrated risk management would be implemented successfully.

Our audit considered the role of internal audit in helping departments to implement integrated risk management.

The audit also assessed the Treasury Board Secretariat's role of providing overall strategic direction for implementing the Integrated Risk Management Framework. We assessed the nature and extent of the guidance and advice the Secretariat provides to departments and how it monitors their progress in adopting and adapting the Framework to meet their particular needs.

The departments included in the audit were

- Canadian Heritage
- Human Resources Development Canada
- · Indian and Northern Affairs Canada
- Transport Canada
- Treasury Board Secretariat
- Veterans Affairs Canada

An important part of the work to support this chapter was identifying the better practices used in the federal government, public sector organizations in other jurisdictions, and private sector organizations.

Scope and approach

The summary-level criteria developed for the audit were the following:

Treasury Board Secretariat

- Progress in departments and agencies should be monitored on a government-wide basis. Strategic intervention should be exercised as appropriate to support the implementation of integrated risk management by departments.
- To maximize cost effectiveness and expedite progress, the Treasury Board Secretariat should co-ordinate and facilitate departmental efforts on common issues (for example, governance issues, communications strategies, human resources matters such as training). Guidance should be provided to departments and agencies to assist them in establishing integrated risk management.
- The Treasury Board Secretariat should keep Parliament informed about matters of significance and the progress made in building a risk-smart workforce and environment in the public service.

Departments

- Departments should have a commitment and culture or climate in place that supports the achievement of the departments' goals and objectives for integrated risk management and fosters the integration of risk management into the departments' governance structure. Senior management should monitor progress on an ongoing basis to support corrective action that departmental strategies may need.
- Each department should have a clear vision and objectives and an organized plan to identify, assess, and manage risks across the department that is consistent with its business objectives. The plan should be communicated to all levels in the department to facilitate the effective management of risks department-wide.

- Risks that may prevent the successful implementation of integrated risk management should be identified, assessed, and managed. Good practices and lessons learned should be shared within the organization to provide the necessary learning and training opportunities for building and strengthening risk management capabilities.
- Plans for integrating risk management across the department should demonstrate due regard to economy and efficiency.
- Clear, accurate, comprehensive, and timely progress information should be provided to senior management and the Treasury Board Secretariat so they can use it in decision making, initiate corrective action where warranted, and report on progress achieved.

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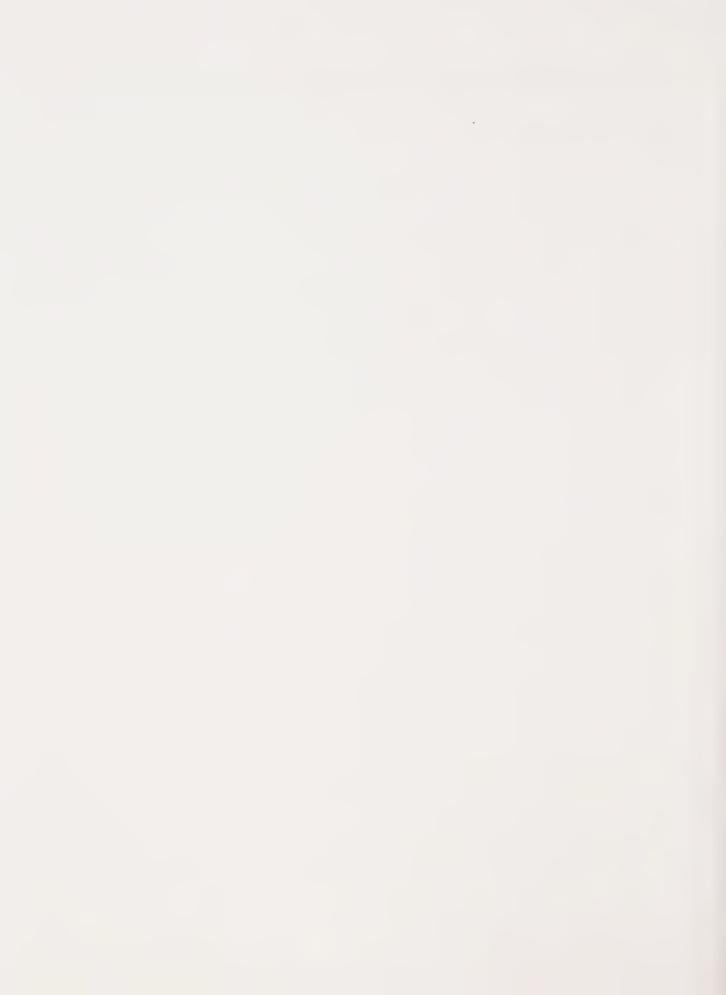
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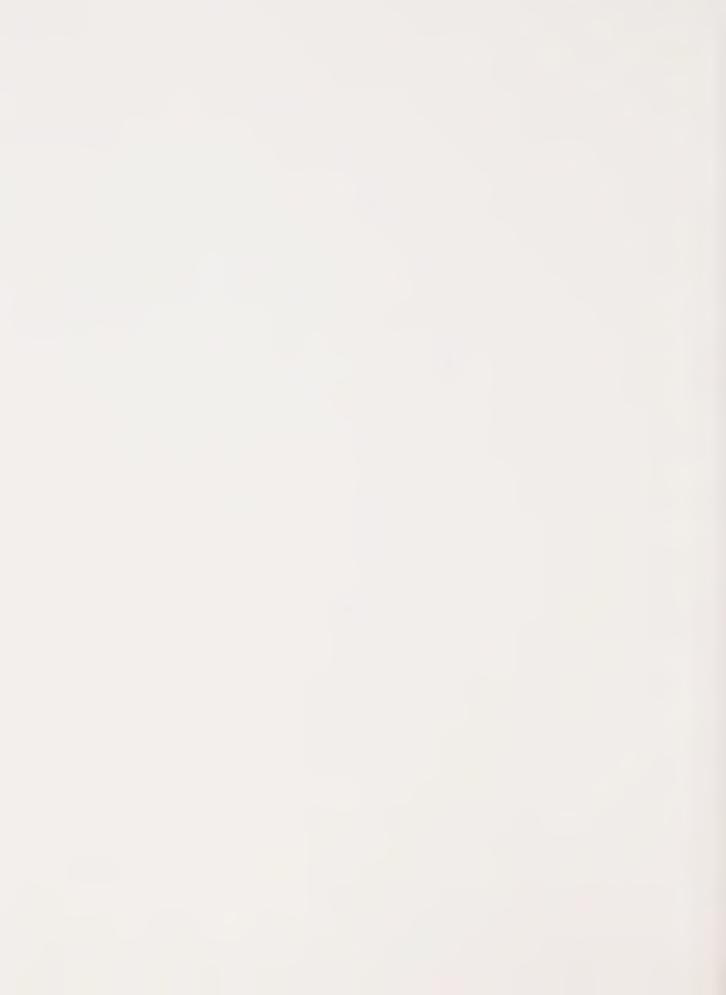


Report of the Auditor General of Canada to the House of Commons—April 2003

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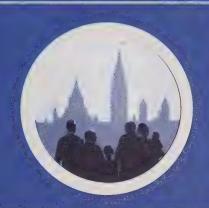








2003



Report of the
Auditor General
of Canada
to the House of Commons

APRIL

Chapter 2
Managing the Quality of Financial Information







2003



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In 2003, the Office marks the 125th anniversary of the appointment of the first independent Auditor General of Canada. Both sides of the House of Commons cheered when the Government of Alexander Mackenzie proposed the 1878 bill that would "free the auditing of Public Accounts from any interference on the part of the administration." That enlightened legislation laid the groundwork for 125 years of dedicated service to Parliament and to Canadians.

The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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Chapter

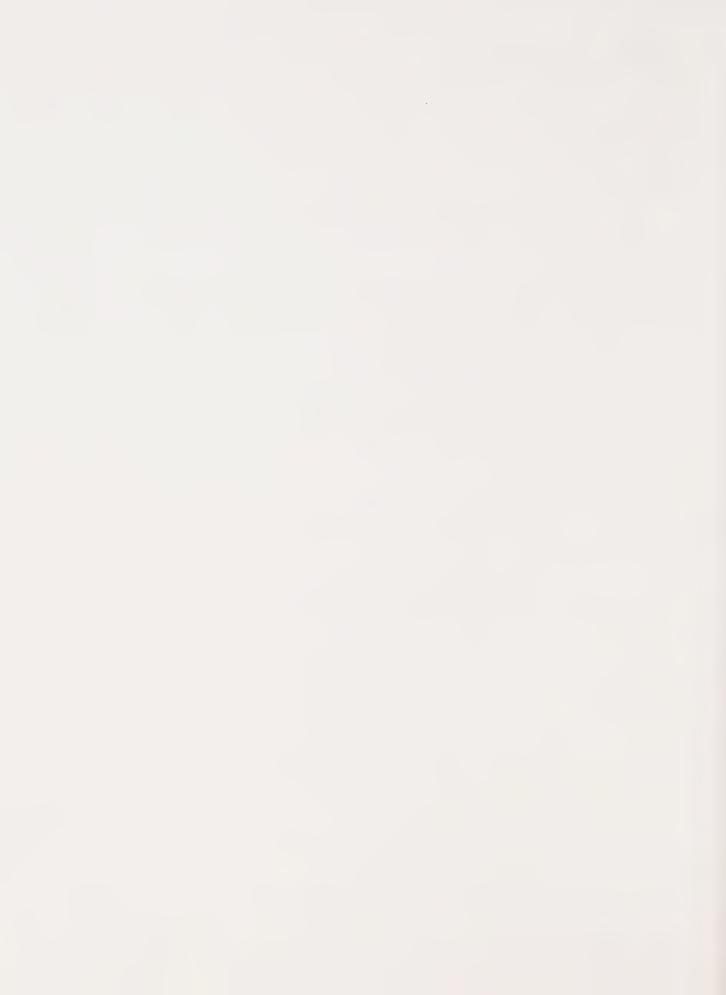
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Managing the Quality of Financial Information

All of the audit work in this chapter was conducted in accordance with the standards for assurance engag Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum rewe also draw upon the standards and practices of other disciplines.	rements set by the equirement for our audits,

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Managing the Quality of Financial Information

Main Points

- 2.1 High-quality financial information that is relevant and useful is important for departmental and government-wide decision making, for preparing the government's summary financial statements, and for reporting to Parliament and to the public the full cost of delivering government programs. As part of its Financial Information Strategy (FIS), the government has invested over \$600 million in new financial systems, policies, and training. Despite being in place for two years, the new FIS infrastructure is still not being used to its full potential.
- 2.2 Managers find it difficult to access the complete financial information they need on-line. Therefore, they continue to maintain their own spreadsheets or local systems, integrating financial data from several systems. These "black books" provide them with the more complete, timely, and accurate picture of their financial operations that they need for making appropriate decisions, projections, and future plans. While generally confident about the basic cash expenditure information, managers expressed some concerns—for example, about delays in personnel changes being reflected in their salary costs, usually the largest portion of their budget. If managers do not use or challenge the data in the departmental systems, there is a risk that the quality of the data may suffer.
- 2.3 Departments have implemented, or are planning to implement, a number of financial data quality assurance practices, but these practices vary by department and within departments. In addition, there is no formal process to gather and share departmental best practices for ensuring the quality of financial data either inside the departments or among them.
- 2.4 The Treasury Board Secretariat provides limited guidance on the quality of financial data, and its *Framework for the Management of Information* is still in the early stages of development. More guidance is needed to help ensure that departmental financial data are prepared to a consistently high standard, primarily for use by departments, but also for high-quality government-wide reporting. We found that some planning for this is underway.
- 2.5 The Office's assessment of internal controls for the new financial systems in a selection of large departments found weaknesses, such as in managing access rights to the system. Departments are making progress in correcting these weaknesses, but we are continuing to press for quicker action. Managers need to be educated on the importance of different types of

controls and how they can be applied to help ensure high-quality financial data.

Background and other observations

- 2.6 The government is implementing its Comptrollership Modernization and Results for Canadians initiatives. To carry out this process, it needs good-quality information on the full cost of departmental programs. However, departments are not making full use of activity or program costing, including the full allocation of corporate overheads. The systems, policies, and practices for capturing and reporting full cost information need to be improved.
- 2.7 The current government environment encourages managers to focus on the amount of their original allotment of money left to spend—their "free balance." As a result, full cost information is not as important to managers as cash expenditure information, so they do not focus on full cost information and its quality. Data quality is usually defined in terms of "fitness for use" (usefulness). The best technique for ensuring high-quality information is to encourage its use in day-to-day management. This is not happening. More work is needed to provide high-quality financial information on costs of programs and to encourage managers to use that information.
- 2.8 While some errors still occur in summary financial data submitted by departments to the Receiver General, the quality of the data has improved over the past year. The Receiver General's quality assurance unit has worked with departments to help them identify and deal with errors uncovered. However, without information on the nature of the detailed transactions behind the summary data, the Receiver General can identify only some obvious coding errors. In addition, the Receiver General represents the end of the information chain; errors noted at that level indicate a lack of quality assurance practices closer to the source (data entry), where prevention and correction are much more cost-effective.

The Treasury Board Secretariat and the Receiver General have responded. They agree with the recommendation (2.39) and describe the work they currently carry out or plan to carry out regarding financial data quality.

Public Works and Government Services Canada, Transport Canada, the Department of Foreign Affairs and International Trade, and Human Resources Development Canada have responded. They agree with the recommendations and indicate the actions they currently take or plan to take to deal with financial data quality.

The Royal Canadian Mounted Police agrees with the chapter and is looking forward to working with the Office of the Auditor General to make the required improvements.

Introduction

Evolution of the government's financial management environment

- 2.9 Having access to reliable information and using it appropriately is a fundamental part of management decision making as well as informing Parliament and the public. Regardless of whether the information concerns financial, human resources, operational, or other performance matters, the quality of the data it contains is important to its value and, ultimately, its use. Data quality is therefore a critical factor in the successful implementation of all information systems.
- 2.10 The government recently implemented new financial information systems in all departments and agencies as part of its Financial Information Strategy (FIS). In 2001–02, it also made further progress in introducing accrual accounting in departments. In this new financial environment, managers will have access to new forms of financial information processed through new systems and will be expected to use that information.
- 2.11 FIS is a key component of the government's Comptrollership Modernization Initiative. The pilot stage of the initiative was recently completed and it has begun to roll out government-wide. Modern comptrollership aims to provide managers with integrated financial and non-financial performance information, a sound approach to risk management, appropriate control systems, and a shared set of values and ethics. The Treasury Board policy on the responsibility of departments to monitor comptrollership calls for ongoing reviews of financial management accountability. These reviews are intended to ensure that managers make decisions with timely, relevant, and reliable information.
- 2.12 We reported on the government's implementation of the comptrollership initiative in our October 2000 and April 2002 reports. In the 2000 Report, we noted that program managers expressed concerns about the timeliness and accuracy of the financial data from the departmental systems. To compensate, many managers maintained separate or supplementary books and records (commonly referred to as "black books"). In the 2002 Report on comptrollership strategies, we said that many managers were not yet aware of the comptrollership initiative and its role in their day-to-day management.
- 2.13 FIS and comptrollership are prerequisites for the broader Results for Canadians initiative. This initiative requires that departments tell Parliament and Canadians what they are achieving with the significant resources at their disposal. The more recent Government On-Line and eGovernment initiatives add a new dimension to these requirements since they have the potential of expanding the public's access to information. The common thread in these new initiatives is that they all point to a need for high-quality management information that is complete, accurate, relevant, and timely.

- When making decisions using this new financial information, managers must have access to the type of information they need and must have confidence in the quality and timeliness of that information; otherwise, they may pay limited attention to it.
- According to the Treasury Board Secretariat, the investment in new financial systems for FIS amounted to over \$600 million. This total did not include costs prior to 1995 or the potentially significant maintenance and upgrade costs that will be incurred over the lifetime of the systems. In addition, in our December 2001 chapter on FIS, we said that because the Secretariat had not set up a cost-capturing framework at the beginning of the project, we could not reach a conclusion on the accuracy of this figure.

Information is important to the government

- The government is in the information business. As the Chief Information Officer Branch of the Treasury Board Secretariat says in the preamble to its Framework for the Management of Information in the Government of Canada, "All of the services that we [government] provide to citizens, to businesses, and to internal clients are about information in one way or another. The provision of information is often the service itself...Fundamentally, most government activities are about managing information."
- Financial information plays a large part in the government's business. In 2001–02, the Government of Canada received over \$170 billion in revenue and spent over \$160 billion. Knowing where that money comes from and where it goes is important to government decision makers, Parliament, and Canadians. The financial information in the Public Accounts of Canada provides readers with a high-level view of government finances, including whether departments have remained within their parliamentary spending authorities. Parliamentarians and the public are also interested in the cost of government programs, particularly where costs are to be recovered or fees are to be set. In the four pillars of modern comptrollership, outlined in the Comptrollership Modernization Initiative, the Treasury Board Secretariat says that managers also need to know what it may cost to produce a result because there are alternative ways of doing so, each with a different cost. Being able to associate resources with results makes for more informed choices.
- Departments need high-quality information to make effective use of all of their funding, as indicated by the following examples:
 - In addition to its role as the federal police force, the RCMP provides police services to most provinces and many municipalities on a contract basis. The RCMP needs high-quality information on the costs of the services it provides to its clients, to support the recovery of those costs in accordance with the contracts.
 - The Department of Foreign Affairs and International Trade provides services overseas on behalf of other government departments and needs to know the cost of providing those administrative services so that other departments can pay their share of those costs.

- The Real Property Services Branch of Public Works and Government Services Canada provides accommodation services for government departments. While these services are provided without charge to most departments, the departments are nevertheless notified of the annual cost of accommodation services to better understand the full cost of departmental programs.
- Transport Canada is required to capture and report full costs for its portion of the government's efforts to put new security measures in place.
- The senior management committee headed by the Deputy Minister of Human Resources Development Canada needs accurate cost information to compare one benefit program with another so that savings, best practices, and lessons learned can be found and shared, thereby optimizing the cost to Canadians.

Alternative service delivery, outsourcing, and the creation of agencies highlight additional reasons for knowing total costs and for having good-quality information on the assets and liabilities managed by departments.

What is data quality?

- 2.19 There are many ways to define data quality (Exhibit 2.1). The common thread in these definitions is that data quality depends on the usefulness of the data—that is, their "fitness for use."
- 2.20 In addition to the definitions of data quality, there are a number of data and information maturity models that can help an organization assess its level of data quality management. One example is the Information Quality Management Maturity Grid (Exhibit 2.2). The goal is to arrive at the point where information quality is an essential part of the organization and improving information quality is a normal and continuing activity. The National Archives of Canada has also developed the Information Management Capacity Check, which departments can use to establish a baseline for information management practices, including information quality.

Focus of the audit

- 2.21 We carried out the audit in the context of our previous work on quality—for example, our work on information quality at Statistics Canada (April 1999, Chapter 3), on departmental performance reporting (April 2002, Chapter 6), on the implementation of the Financial Information Strategy (December 2001, Chapter 1), and on the quality of health statistics (December 2002, Chapter 6).
- 2.22 The objective of this audit was to assess the government's systems, policies, and practices to manage the quality of financial information. This consisted of two parts. The first part was to determine whether departments have put in place financial systems, policies, and practices to provide managers with appropriate and reliable financial information. The second part was to determine whether the central agencies have put in place systems,

policies, and practices to provide overall direction and guidance to departments and to manage the overall quality of government financial information.

- 2.23 Our audit included the following federal organizations:
 - Department of Foreign Affairs and International Trade;
 - Human Resources Development Canada;
 - Public Works and Government Services Canada (PWGSC), primarily the Real Property Services Branch;
 - Royal Canadian Mounted Police (RCMP); and
 - Transport Canada.

2.24 We also report the results of our controls assessments in eight departments as part of our new approach to auditing the Public Accounts of Canada that will rely on controls of financial systems. More information is available in About the Audit at the end of the chapter.

Exhibit 2.1 Definitions of data quality

The following is a selection of data quality concepts and definitions taken from Canadian and international sources:

Information quality of Statistics Canada's statistical outputs is defined in terms of its "fitness for use" by its clients. The six dimensions of data quality are relevance, accuracy, timeliness, accessibility, interpretability, and coherence.

Quality Assurance Framework, Statistics Canada, 2002

The quality of data comprises its accuracy, completeness, timeliness, relevance, and interpretability in the context of its "fitness for use."

The "fitness for use" cycle is described in terms of whether the data set contains the necessary data elements to answer the business question and whether the data are relevant, accurate, complete, and timely enough given the intended use.

Using Information in Government, Center for Technology in Government, State University of New York (SUNY), Albany, 2000

Data quality is the state of completeness, validity, consistency, timeliness, and accuracy that makes data appropriate for a specific use.

Data Warehouse Quality, DM Review Archived Articles, January 1996

Data quality can be evaluated only in the context of a use or set of uses.

Data Quality Problems in Army Logistics, U.S. Department of Defense, 1996

Key data quality characteristics are accuracy, consistency, completeness, entirety, breadth, depth, precision, latency, scarcity, redundancy, and integrity.

Ascending the Information Maturity Model: Part 1-Data Quality, Meta Group, March 2002

Exhibit 2.2 Information quality management maturity grid

Measurement categories	Stage 1: Uncertainty (Ad hoc)	Stage 2: Awakening (Repeatable)	Stage 3: Enlightenment (Defined)	Stage 4: Wisdom (Managed)	Stage 5: Certainty (Optimizing)	
Management understanding and attitude	Information quality is not considered a management tool. Management tends to blame data administration or information services for "information quality problems" or vice versa.	Management recognizes that information quality management may be of value but is not willing to provide money or time for it.	Through the information quality improvement program, management learns more about quality management; it is becoming more supportive and helpful.	Management is participating. It understands the principles of information quality management and recognizes its continuing role.	Information quality management is considered an essential part of the company system.	
Information quality organization status	Data quality is hidden in application development departments. Data audits are probably not part of the organization. The emphasis is on correcting bad data.	A stronger information quality role is "appointed" but the main emphasis is still on correcting bad data.	All assessment is incorporated and managers have a role in developing applications.	The information quality manager reports to a chief information officer. Status reporting and preventive action are effective. The organization is involved with business areas.	The information quality manager is part of the management team. Prevention is the main focus. Information quality is a key consideration in all activities.	
Information quality problem handling	Problems are dealt with as they occur. There is usually no resolution due to inadequate definition. Conflict is common.	Teams are set up to attack major problems. Longterm solutions are not solicited.	Communication on corrective action is established. Problems are faced openly and resolved in an orderly way.	Problems are identified early in their development. All functions are open to suggestion and improvement.	Except in the most unusual cases, information quality problems are prevented.	
Cost of information quality as a percent of revenue	Reported: Unknown Actual: 20%	Reported: 5% Actual: 18%	Reported: 10% Actual: 15%	Reported: 8% Actual: 10%	Reported: 5% Actual: 5%	
Information quality improvement actions	There are no organized activities, and understanding of such activities is lacking.	Motivational short- term efforts are made.	Management implements a 14-point program. It thoroughly understands and establishes each step.	A 14-point program is continuing and benefits are starting to be optimized.	Information quality improvement is a normal and continued activity.	
Summation of company information quality posture	"We don't know why we have problems with information quality."	"Is it absolutely necessary to always have problems with information quality?"	"Through management commitment and information quality improvement, we are identifying and resolving our problems."	"Information quality problem prevention is a routine part of our operation."	"We know why we do not have problems with information quality."	

Source: Adapted from the Philip Crosby Quality Management Maturity Grid, reprinted with permission from Improving Data Warehouse and Business Information Quality, © Larry English

Observations and Recommendations

Clearly stated volicies, guidance,

Limited central guidance on financial data quality

2.25 Under the Financial Information Strategy, the government has moved to a decentralized model of accounting whereby departments are responsible for maintaining the detailed financial information, and only summary data are sent to the Receiver General for reporting in the Public Accounts of Canada. Given the importance of the departmental data for government-wide decision making and for preparing the government's summary financial statements, we expected that the Treasury Board Secretariat would provide departments with a wide variety of guidance and best practices on data quality. This would help ensure that the departmental data were prepared to a consistently high standard for both departmental use and government-wide reporting. We also expected the Receiver General to have data quality assurance processes in place.

2.26 Internal controls, audit, guidance, and best practices, all part of modern management, have a significant role to play in ensuring data quality. We noted that other jurisdictions (for example, the United States and the United Kingdom) have provided central guidance (either by central agencies directly or by national audit offices in consultation with central agencies) to their departments to help ensure consistent data quality standards and practices across the government (Exhibit 2.3).

Exhibit 2.3 Data quality guidance in other jurisdictions

United Kingdom

In its 2000 report *Good Practice In Performance Reporting In Executive Agencies and Non-Departmental Public Bodies*, the UK National Audit Office provided guidance to executive agencies on 12 steps to more robust reporting, 6 of which related to data quality.

United States

The General Accounting Office in the United States issued a report in 1994 (GAO/AIMD-94-115) describing some fundamental practices related to strategic information management, including the need to support key decisions with the right information available to the right people at the right time.

In 2001, the Office of Management and Budget issued government-wide *Guidelines* for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies.

2.27 We found that the Treasury Board Secretariat provided limited guidance on financial data quality. In May 2002, the Secretariat issued an information bulletin to senior financial officers telling departments that the quality of financial information is important and reminding departments of the need for effective internal controls and adequate oversight by internal audit. According to its officials, the Secretariat had also communicated the importance of financial data quality in a number of presentations to the financial community, such as to the senior full-time financial officers.

In addition, the FIS Accounting Manual helps departments determine the appropriate accounting treatment for a number of situations.

2.28 The Chief Information Officer Branch of the Treasury Board Secretariat created its Information Management Division in the fall of 2000, with a goal to improve and enhance the management of government information in the digital age. The Division recently began work on the Framework for the Management of Information in the Government of Canada, which promotes a life cycle approach to information management. One aspect of this framework covers data quality. The development of the framework is still in its early stages, and the data quality section and guidance have yet to be developed.

The Treasury Board Secretariat has made efforts to help departments improve financial data quality

- **2.29** The Treasury Board Secretariat recently implemented a number of steps that could help departments produce high-quality financial data. These steps include the sign-off of departmental trial balances by the senior full-time financial officer or accounting delegate and the review of departmental data before the end of a fiscal year.
- **2.30** The Secretariat is developing a high-level control framework to help departments develop control systems. When completed, the framework could be a useful tool for monitoring the efforts of departments to develop and implement controls.
- The Secretariat reviews the departmental financial statements and provides feedback to the departments. It has also created a working group to discuss reporting issues related to financial statements. Publication of departmental financial statements would help promote financial data quality in departments because of the statements' visibility to the public. However, this has not yet been done. As we previously noted in our Observations on the Financial Statements of the Government of Canada and in our chapters on the Financial Information Strategy, the current model for departmental financial statements does not include some major costs and liabilities—for example, liabilities maintained centrally by the Treasury Board Secretariat and services provided without charge by other government departments. As we reiterated in Chapter 5 of our December 2002 Report, we believe that without this information, the departmental financial statements do not provide complete information on departments' program costs and financial positions. The Secretariat indicated that the departmental financial statements will not be published until they contain complete information.

The Receiver General has put in place quality assurance practices

2.32 The Receiver General created a quality assurance unit in 2001 to monitor the quality of the summary departmental data being input into the Central Financial Management and Reporting System (CFMRS). Each month, departments provide the central system with summary information for each combination of government-wide codes. This amounts to over 70,000 records monthly. With the exception of tests of control

account balances, the CFMRS has no built-in error checking. To carry out its work, the quality assurance unit at the Receiver General developed over 60 quality assurance reports. These reports include tests for inappropriate coding combinations or zeros entered where a code is expected. The Receiver General provides departments with copies of the quality assurance reports and discusses the contents with them regularly.

- 2.33 Statistics maintained by the Receiver General show improvement in the quality of the summary data in the CFMRS. The total number of errors reported in October 2002 was 639, or about one percent of total monthly records. This compares with 1,358 errors reported in April 2002 and 2,285 in October 2001. The main errors were the entering of zeros where activity codes were required and invalid coding of transactions internal to government; together these accounted for over one third of the errors.
- 2.34 The Receiver General's quality assurance process is able to detect only some obvious coding errors. Without information on the nature of the detailed transactions behind the summary data, the Receiver General cannot certify the accuracy of the original coding. Only the departments have the necessary information. In addition, the CFMRS represents the end of the information chain, which begins with data entry in departments. The identification of errors at the Receiver General level indicates the lack of quality assurance practices closer to the source, where prevention and correction are much more cost-effective. The onus is on the departments to ensure that their data are complete and accurate, and particularly that there are no obvious coding errors, before the summary data are sent to the CFMRS for inclusion in the accounts of Canada. Errors reduce the usefulness of this government-wide information.
- The Office of the Auditor General also carries out an annual audit of the government's summary financial statements, which are published in the Public Accounts of Canada. In the Observations of the Auditor General on the Financial Statements of the Government of Canada and in our December 2002 chapter on financial management and control, we commented on the issues and problems found during the 2001-02 audit. These included a lack of timely reconciliation of control and suspense accounts; errors in completing Public Accounts submissions; unreconciled interdepartmental transactions; and corrections to departmental financial information during the audit, including several significant corrections to account balances at the end of the audit. Although these issues were resolved at the government-wide level to allow us to issue an opinion without reservation on the 2001-02 financial statements of the Government of Canada, their resolutions may not be reflected at the departmental level; this reduces the usefulness of the information to managers. Also important to consider is that our audits of the summary financial statements are carried out to an audit level of materiality for the government as a whole. Management's level of materiality is much lower because of the need for high-quality, detailed information to support the decisions made by managers at a program or departmental level. (More information is available in the Observations of

Materiality—The level of error in financial statements that would be tolerated before a reader's judgment based on those statements would be affected.

the Auditor General on the Financial Statements of the Government of Canada, published in the Public Accounts of Canada.)

Difficulties in capturing and reporting the full cost of activities

- the data in a variety of ways—accounting, authorities, and full costs. When talking about the quality of financial information, all of these views need to be considered. For a view of the full costs, we noted that departmental coding structures normally are able to capture the costs of activities, but there needs to be some way of allocating the costs of internal activities to determine and report the full costs of a department's services to Canadians. A number of costing methods are available to give managers information on the full cost of their programs, including the cost of corporate overhead supporting the programs. We found that costing methods are not widely used or standardized in departments, although some departments are exploring particular methods—for example, Public Works and Government Services Canada and the Department of Foreign Affairs and International Trade are considering introducing activity-based costing.
- 2.37 Departments use an activity code structure to assist in providing information to the central agencies for government-wide reporting. Departments and agencies identify their business lines that are known as government-wide activity codes in the chart of accounts. These business lines form the basis for funding and reporting. The generally accepted view of business lines is that they should represent the external services provided to Canadians. However, our review of the government-wide chart of accounts showed that almost 90 percent of the 44 entities that have more than one business line also have separate corporate administration business lines. Because the costs of those business lines are not allocated to the business lines serving Canadians and other clients, the full cost of departmental activities is not being presented to Parliament and the public in an easily understood and usable manner. Supporting schedules could show how the full costs are derived, including identifying corporate overhead.
- 2.38 An important aspect of the government's Results for Canadians initiative is that "departments and agencies need to produce information on program costs and results required for sound decision making. They must bring together financial and non-financial performance information to link costs with actual or expected results." One of the first steps in ensuring high-quality cost information for programs is to have the policies, systems, and practices in place to properly capture it. In addition, central direction is needed to ensure consistent application among departments.
- **2.39** Recommendation. The Treasury Board Secretariat and the Receiver General should provide departments with guidelines on financial data quality and monitor their application in departments. This monitoring should include identifying and sharing best practices for ensuring the quality of financial data.

Treasury Board Secretariat's and Receiver General's response. As noted in the chapter, the Treasury Board Secretariat and the Receiver General have already provided guidance on data quality. The Receiver General has provided guidance in the form of the Receiver General Manual and communications and explanations regarding CFMRS exception reports. The Chief Information Officer Branch and the Comptrollership Branch of the Treasury Board Secretariat have developed or promoted the development of various types of products and best practices related to data quality, some of which are mentioned in the chapter. The following Secretariat Web site on modern comptrollership practices is one such venue: http://www.tbssct.gc.ca/cmo mfc/practices e.asp

The Secretariat will continue to co-ordinate internal efforts and work with other organizations such as the Receiver General and the Office of the Auditor General to develop and communicate guidance on data quality. Specifically related to financial data quality, the Secretariat has established a working group on financial data quality that will encourage departments to share best practices. The group, which includes participants from various departments, the Treasury Board Secretariat, the Receiver General, and the Office of the Auditor General, commenced meeting in February 2003. The subject of financial data quality will also continue to be discussed at meetings of the Interdepartmental Financial Statement Working Group chaired by the Secretariat. In addition, an interdepartmental working group has been created to guide the development of a generic control framework, focussed on financial controls, that all departments will be able to tailor to their specific needs.

Departmental quality assurance practices vary

- None of the departments we visited had a comprehensive financial data quality assurance plan in place. However, departments have implemented, or are planning to implement, a number of financial data quality assurance practices. These include the following:
 - · post-payment verification;
 - sign-off on financial information;
 - goals in manager performance contracts to improve data quality;
 - system edits:
 - reconciliation of accounts with Receiver General central systems and other departmental systems; and
 - ad hoc exercises for cleansing data.
- Post-payment verification. Post-payment verification is a process whereby transactions, primarily expenditures, are reviewed by the finance group for errors. The extent and timing of the review is generally risk-based, with high-risk transactions often pre-audited prior to payment. Other transactions are normally sampled after payment. The criteria used in these reviews generally look at whether the payment meets the requirements for payment, has been properly approved, went to the right payee, and was in the right amount. Accounting coding (for example, the proper use of an activity

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code) is usually a secondary, non-critical criterion. However, given the importance of coding to providing good financial information, we believe that it needs to be seen as critical. The results of the post-payment verification process are discussed with the managers involved, critical errors are corrected, and additional training is provided if necessary. PWGSC, Human Resources Development Canada, the Department of Foreign Affairs and International Trade, and Transport Canada have established post-payment verification processes. However, these processes vary by department and, in some cases, within departments. Exhibit 2.4 outlines PWGSC's process.

- 2.42 To test the quality of departmental financial data, we selected a small statistical sample of 25 to 30 transactions from each of the five departments we audited. The sample was drawn from transactions processed in June and July 2002. The sampling plan was not designed to test for the completeness of data or for the salary allocation issue that was raised by managers during the audit. We obtained supporting documentation for the sample transactions and examined the appropriateness of the departmental and government-wide coding as well as the accuracy and timeliness of the amounts recorded. We can conclude from the results of the sample testing that the overall error rate is less than five percent.
- 2.43 Review and sign-off. Managers know their operations and are therefore the best people to review their financial results for unusual items. Four of the five departments we audited therefore ask managers to sign off on their expenditures to date and their forecast spending to the end of the year. This practice varies by department and ranges from monthly sign-off of key reports at Transport Canada to periodic sign-off of forecasts at Human Resources Development Canada, PWGSC, and the RCMP.
- 2.44 The review and sign-off process helps ensure that a department does not overspend its appropriation—that is, the amount of spending authorized by Parliament. The focus of the review is on the manager's forecast of "free balance." The manager is usually supported by a financial officer who reviews the information and makes the necessary adjustments and corrections before the manager reviews and approves the forecast.
- expenditures. Forecasting future expenditures is an ongoing requirement to ensure that they do not overspend their discretionary funds. All of the managers we interviewed said that they were generally confident about the cash expenditure information in their financial systems because of the focus on an accurate and up-to-date free balance. They were less confident about the salary data because of limited accessibility, a lack of good reports, and delays in the processing of human resources transactions.
- 2.46 In all of the departments we audited, a central human resources unit processed human resources transactions. Salary costs are the largest part of most managers' budgets; therefore, allocating and forecasting those costs is critical to managing their free balances. Centralized processing of human resources transactions adds to the delays in processing transactions related to new employees, departures, transfers, acting positions, and all other staffing matters. As a result, most managers maintain a separate salary management

Free balance—The amount of an original allotment of money that a manager has left to spend.

system or spreadsheet and/or a list of open positions to monitor and forecast their salary costs.

Exhibit 2.4 Post-payment verification

Public Works and Government Services Canada introduced a Post-Payment Account Verification Framework. The purpose of the framework is to assess the effectiveness of the accounts verification processes in place in the decentralized business organizations and their compliance with the Treasury Board guidelines and the departmental policies. This is done by selecting a sample of certain payment transactions.

The organizations included in the sampling plan are the following:

- the Minister and Deputy Minister's Office
- · Government Operational Services
- · the Minister's regional offices
- · Real Property Services
- Government Telecommunications and Informatics Services—Management Services

Effective November 2001, the following organizations were added to the sampling plan:

- · Corporate Implementation Group
- · Legal Services Branch
- Audit and Review
- · Ethics Development Office
- · Communications Branch
- · Human Resources Branch
- the rest of Government Telecommunications and Informatics Services

High-risk (sensitive) transactions include hospitality, membership fees, damage claims, ex-gratia payments, and transactions over \$1 million. Low-risk (non-sensitive) transactions are sampled on a stratified basis.

The results of the Department's post-payment quality assurance process for the third quarter of 2001–02 (October to December 2001) showed that the critical error rate for high-risk transactions exceeded the Department's maximum tolerable error rate of 4 percent. The critical error rate for low-risk transactions was close to the maximum tolerable error rate of 4 to 6 percent.

The sample of high-risk transactions, which represents less than one percent of total transactions of the Department, had a critical error rate of 27 percent, the large majority of which related to a lack of pre-approval for hospitality over \$200 and for membership fees. The sample of low-risk (non-sensitive) transactions had a critical error rate of less than 6 percent. About 9 percent of the transactions had a financial coding error, mainly in determining the type of expenditure for hospitality expenses, but this is considered a non-critical error.

For each critical error found, the Quality Assurance Unit informed the appropriate organizations. It also circulated a communiqué describing managers' responsibilities related to the importance of the authorization required under section 34 of the *Financial Administration Act* indicating that the goods or services had been received.

Source: Quality Assurance of the Account Verification Process, Regular Audit, October to December 2001; Financial Operations Directorate, August 2002

- 2.47 Goal in performance contracts to improve data quality. In the Real Property Services Branch of PWGSC, manager performance contracts now include a goal to improve data quality by 10 percent. While this goal relates primarily to operational data, it is an example of a practice that could be extended to financial data. The RCMP plans to put at risk a part of its managers' performance pay, based on the accuracy of their last quarterly financial forecast. The importance of financial data quality in the eyes of managers would increase if appropriate and measurable goals were included in performance contracts.
- **2.48** System edits. We found that the departmental systems include a variety of system edits (error checking) of data input. These include editing coding and code combinations and limiting input to particular responsibility centre codes. System edits are an important tool to assist in improving the quality of financial information early in the process.
- their departmental accounts with the Receiver General's control accounts on a monthly basis prior to submitting their trial balances to the CFMRS. The CFMRS does not accept departmental trial balances unless the control accounts agree with those of the Receiver General. These control accounts simply ensure that the cash payments and receipts processed through the Receiver General's payments, deposits, and payroll systems have been accounted for in departmental systems. The accounting distribution of those items is carried out at the departments, and the Receiver General must rely on the department to ensure that the information is correct. For example, the Department of Foreign Affairs and International Trade (DFAIT) has made significant improvements in its CFMRS reconciliation process by creating a reconciliation unit whose staff have developed a sense of ownership over the data and their accuracy. Data from the new departmental financial systems and older existing systems are also reconciled.
- 2.50 Cleaning up data. Departments have carried out a number of ad hoc exercises to clean up the data in their systems. Although these exercises are needed to ensure good-quality data, they are often time-consuming. For example, DFAIT recently verified the human resources data of its European missions as at 30 September 2002 because the data had become outdated. When the work was completed, the Department would have had good information up to 30 September. However, new data entered in the intervening period may not have been validated as thoroughly, particularly if the business processes leading to the original problem had not been reviewed and improved. Having a well-functioning practice in place to ensure that good-quality data are entered in the system at source virtually eliminates the need for ad hoc cleanup afterwards.

Regional differences in practices

2.51 The departments audited had considerable regional operations. We found that the quality assurance practices were not consistently applied across departments and that regional differences in approaches existed. While some regional differences in practices may be appropriate, for example, based

on risk, departmental financial information needs to be seen as a corporate resource with quality assurance standards applied across the department. In addition, managers reported a lack of formal processes to capture and share best practices within the departments, for example, on quality assurance.

Internal audit involvement is limited

2.52 In most of the departments, internal audit had limited involvement in reviewing departmental quality assurance processes. As part of their assurance role under the new policy on internal audit, all departmental audit groups have undertaken, or are planning to undertake, some focussed audit work on the quality of financial information. For example, Internal Audit and Risk Management Services of Human Resources Development Canada plans to carry out ongoing testing of the Department's financial control framework. The focus will be on examining controls for the departmental financial system and monitoring the results of post-audit activities and the work carried out by internal control groups in the finance area.

No formal process for gathering and sharing best practices

- 2.53 Although the Treasury Board Secretariat has some working groups where best practices could be discussed, there is no formal process to gather and share departmental best practices for assuring the quality of financial data. Sharing best practices could help to ensure consistency in quality assurance standards across the government and minimize "reinventing the wheel." For example, as previously described, departments have created post-payment verification processes to ensure the accuracy of their expenditure data. But according to the financial managers we interviewed, there is no central co-ordinator at the Secretariat to facilitate the sharing of these data quality practices. Departments need to use their own contacts and networking methods to find out what is being done at other organizations.
- **2.54** Recommendation. Departments should develop appropriate quality assurance plans and practices that are consistently applied across the department. Managers should sign off regularly on the quality of data.

Public Works and Government Services Canada's response. The monitoring of data quality was a critical element in the 1999 development of PWGSC's account verification framework to support the devolution of data entry and operational management reports of the centralized financial system to its line organizations. The department-wide implementation of the framework, including regions and special operating agencies, will be completed in 2003–04. To standardize accounting information, the Department is developing an accounting manual, establishing a new reconciliation framework, and implementing an active monitoring framework to review data quality. Each month, management signs off on the quality of data in the Department's trial balance. In addition, a Quality Assurance Program is being developed to integrate and support the 2002–03 Privy Council Office's corporate priorities for the Public Service of Canada into our departmental executives' performance agreements.

Transport Canada's response. Transport Canada agrees with the recommendation and has implemented various system edit checks, including extensive on-line coding edit rules to ensure that data are captured accurately. In addition, the Department has extensive monthly and year-end policies and procedures that provide the framework for ensuring that data are reviewed and reconciled by accounting offices consistently across the Department. Senior accounting staff sign off to indicate that the procedures are completed on a timely basis. As part of the monthly forecasting process, the Department's managers are responsible for reviewing their reports, including salary reports, for completeness and accuracy. Transport Canada actively monitors data quality on a continuous basis, and makes changes to quality assurance practices as required.

Department of Foreign Affairs and International Trade's response. The Department is currently implementing a project entitled The Security and Authorizations Project, which will regulate access to our financial system, improve control, and ensure more uniformity in both headquarters and missions. In line with the Financial Information Strategy (FIS), we are currently improving the corporate reports for use by the Executive Committee on a monthly basis. Combined with the Deputy Minister's approval of the Letter of Representation and the Annual Public Accounts (for which the Department recently received an "A" rating from the Treasury Board), this will ensure senior management's involvement in the quality of our financial data. Regarding our Human Resource Management System, we have recently completed a significant clean up of data and our Human Resource organization is committed to the business process review to ensure that high data quality is maintained.

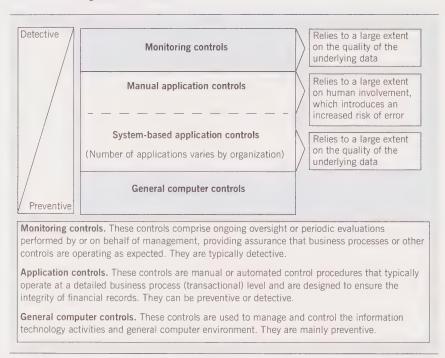
Human Resources Development Canada's response. The Department concurs with the recommendation. It has quality assurance practices in place and continues to assess and improve the practices, such as our National Post Audit Process. Managers are required to sign off on forecast spending reports.

Departmental controls and control frameworks need improvement

- 2.55 Chapter 1 of this Report, Integrated Risk Management, outlines how integrated risk management entails managing risk and control activities across an organization. Controls are management's actions to mitigate risks and achieve established objectives. As a minimum, basic controls are needed to reduce the risk that financial data may be incorrect or corrupt and to reduce the potential consequences of errors in financial data. When controls are applied systematically, this is usually referred to as a control framework (Exhibit 2.5).
- 2.56 An effective framework of internal controls can help reduce the risks of data error and its impact on decision making. These controls are as basic as preventing unauthorized or improper changes to key financial data or requiring a senior official to certify that the financial records are complete, up-to-date, and accurate. A key control is the monitoring of financial information by managers. In our audit we interviewed over 80 managers in five departments and two central agencies. Most relied on their financial

assistants to perform this task and to present the information to them for review. Only a few of them said that they carried out this key control by viewing the financial information on-line themselves; in our opinion, doing so is a stronger control because managers see the actual raw data.

Exhibit 2.5 Building blocks of controls



- 2.57 In Chapter 5 of our December 2002 Report, we reported on our work over the past two years at eight large departments to examine the controls covering nine financial systems (see About the Audit at the end of this chapter). The results indicated that controls for the financial systems were weak, particularly in managing access rights to the system.
- 2.58 Since our December 2002 Report, the Office has carried out or is carrying out additional controls assessments. We also worked with internal audit at one agency to do a controls assessment that the agency sponsored. We have seen similar weaknesses in almost all of the systems that we examined.
- 2.59 In our view, the rights to access and update financial information were not carefully managed in the computer systems and in the business applications, and managerial checks and sign-offs were not well executed. As a consequence, there is a risk that the organization's manual and managerial controls were not reliable. For example, members of the systems development team were able to modify information in the organization's financial system. This privilege had been granted in the early days of development so that system errors and failures could be swiftly addressed. However, after many months or years of reasonably stable operations, these

privileges still remained. A properly controlled financial system would not permit any ad hoc changes to data already entered in the system. Any changes to financial information should be properly logged, validated, and signed off using clear and established procedures. This is necessary to protect the organization and the individuals involved.

- 2.60 Another example of a common control weakness concerns the movement and transfer of people within an organization. In many cases, people change responsibilities in an organization and perform different functions. Employees might carry the privileges of previous jobs to new jobs without justification, and the appropriate financial officers might not be notified of changes in responsibilities. This security loophole needs to be closed to protect the organization and the individuals. Controlling the number of people who are authorized to perform certain business transactions has a positive effect on the reliability and quality of data.
- departments that we assessed, we believe that guidance from the Treasury Board Secretariat could play a role in improving the situation quickly. A key aspect is educating managers on the importance of different types of controls—for example, preventive controls that are largely based on systems or detective controls that are largely based on management review. Once established and effective, system-based controls are applied consistently, usually at the source (data entry). The consistent application of controls based on management review depends on the efforts of individual managers; this review is usually carried out near the end of the information chain. Some departments believed that their management controls and reviews of reports were sufficient and that system-based controls were therefore not necessary.
- 2.62 In Chapter 5 of our December 2002 Report, we recommended that the Treasury Board Secretariat ensure that departments deal with the internal control challenges they face. As we discussed earlier, the Treasury Board Secretariat told us that it plans to issue high-level guidance on control frameworks by the end of the fiscal year. In addition, the SAP financial system cluster group (user groups that share expertise in support of the financial system) has created a tool for generating user profiles to assist departments in managing user privileges.
- 2.63 We carried out our first controls assessments over two years ago. At the time, departments indicated a willingness to make the necessary changes. A follow-up review showed that Agriculture and Agri-Food Canada has made significant improvements. A similar follow-up at Canadian Heritage found some improvement, but progress to date has been slow. At December 2002, we had not yet started our planned follow-up review of the third organization, the Canada Customs and Revenue Agency. The Agency has reported to us that it has made progress. We continue to press for these problems to be addressed more quickly. Effective controls will be beneficial for the departments and their management as well as for their internal and external auditors.

2.64 There was one fully successful controls assessment last year. Based on our review of controls in the PWGSC Regional Pay System, including the pay-related controls in departments, we found sufficient systems controls and managerial controls in place to change our approach in auditing government-wide payroll costs for the 2001–02 Public Accounts. By relying on the controls, we were able to reduce the amount of detailed testing.

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The new financial systems are not being used to their potential

- 2.65 Over \$600 million has been spent to implement new financial systems across the government. At the time of acquisition, only the financial and material management modules from large Enterprise Resource Planning (ERP) systems such as SAP and Oracle were licensed by the government. Today, these ERP systems are capable of handling a wide variety of functions—for example, financial management, human resources management, and materiel management—in an integrated fashion.
- 2.66 These financial systems, designed for on-line use, were selected and implemented in part to provide managers with direct access to their management information. However, we found that about 90 percent of the managers we interviewed do not access the systems directly. They rely on their financial and administrative staff to extract and provide them with the information in the format they need.
- 2.67 This information often takes the form of locally created spreadsheets and other analyses. These "black books" help managers track their spending, forecasts, and free balances. Managers claimed that the quality of data in these locally maintained records was better than the quality of centrally supplied data, with the exception of basic expenditure information. The use of these black books underscores the difficulty of readily obtaining information needed to manage and the lack of confidence in the quality of data in departments' corporate systems.
- 2.68 Another concern is that departments are not taking advantage of the potential power of their financial systems. The systems are used mainly to process financial transactions. There is a lack of forecasting support, and other modules such as project management and planning are either not used or are not available.
- 2.69 The first step in creating an environment that encourages high-quality financial information is to reduce the need for black books by ensuring that the central systems are complete, accurate, and up-to-date and present the information in a form that is easy to use. The second step is to ensure that the departmental financial systems provide managers with the functionality and support tools they need. Some departments have plans in place to upgrade their financial systems.

Managers need to integrate financial information from a number of systems

2.70 In general, the government hires managers to run programs and create policy, and thereby support their department's activities and produce results for Canadians. We found that in every department we visited, managers were forced to deal with several internal systems in order to get timely, complete, authoritative, and accurate information. This process is counterproductive to the managers' primary objectives. They find that this additional administrative burden adds to the already high pressure on the time they have to deliver their programs. In addition, quality may suffer when managers have less time to review and challenge the information.

- 2.71 In the early 1990s, the Treasury Board Secretariat licensed PeopleSoft government-wide as an approved human resources information system. Since then, the PeopleSoft product has evolved into a full Enterprise Resource Planning system competing with a range of products including SAP and Oracle. All of these systems today provide much the same functionality.
- 2.72 Many departments use PeopleSoft for human resources information and SAP or Oracle for their financial information needs. Since these systems are not built to integrate with other systems easily, managers need to integrate data sources themselves or acquire additional software packages that will perform the integration. For example, in most of the departments we audited, human resource and salary information is maintained in at least two different systems. The lack of integration limits management's access to the complete picture and leads to the development of black books to bring the information together.
- 2.73 Reporting continues to be a major concern with these systems. The systems were designed to be used online. However, since managers do not use the systems directly or on-line, they require reports. Managers told us that none of the systems provides reporting that is easy to use. The departments recognize this, and in some cases they have used commercial, add-on reporting tools to compensate for difficult reporting features. New tools mean additional costs to departments, often in the millions of dollars, and this is on top of the significant original investment. These reporting tools are sold on their ability to integrate data from a variety of sources. However, the quality of the reporting tools' data is totally dependent on the quality of the systems that feed the data. The purchase of the reporting software provides a focal point for a major exercise to clean up data in a department. However, integrating and reporting information from a variety of systems can easily become a very expensive process.
- 2.74 It is now possible for organizations, both large and small, to obtain one integrated system for all administrative information. Modern systems do not require multiple or redundant data entry; nor do they force managers to manually integrate the key administrative information that they need to manage their programs. Savings may be gained by reducing the number of software packages that a department must support. The Treasury Board Secretariat has initiated a project to look into setting up shared financial services; however, broader shared corporate services might be more appropriate.
- **2.75** Making full use of Enterprise Resource Planning systems, integrating them fully with other systems, providing easy-to-use interfaces, and providing managers with full cost information are some of the methods that

departments could use to help ensure payback from the significant investment in new financial systems.

Reporting of information to managers needs improvement

- 2.76 In the departments we audited, the finance/accounting area was usually responsible for creating and maintaining accrual-based information. The information was not yet being provided to operational managers. It was largely considered necessary to satisfy the requirements of the Receiver General and the Treasury Board Secretariat.
- 2.77 Financial managers said that the accrual-based information is of limited use to operational managers due to the lack of comparability in the presentation of numbers in financial information, budgets, and appropriations. They complained of the need to maintain two sets of books, one to manage and one to report. In their opinion, operational managers would always focus on the use of cash as long as they were accountable to Parliament on that basis. As reported in our December 2002 chapter on financial management and control, the government is currently reviewing how it could incorporate accrual accounting into its budgeting and appropriations process. We recognize that regardless of the outcome of this review, cash management will always be important to the government and its managers. However, since managers are not yet receiving or using accrual accounting and full cost information, they pay little attention to this information or to its quality.
- 2.78 It is important to identify managers' needs for financial reports on a continuing basis. Surveys, interviews, and working groups are some of the methods a department could use to acquire such knowledge. Local systems or spreadsheets could be another valuable source of information on managers' needs. For example, Human Resources Development Canada has carried out a survey of its managers' needs for financial reports. Similarly, Transport Canada is making an effort to identify and develop specific reports for its managers.
- 2.79 To improve financial reports for managers, departments could use a business case approach to developing the reports needed, make data more accessible for ad hoc analysis, and educate managers on the availability and use of the new financial information and reports.
- **2.80** Recommendation. Departments should consolidate or integrate key management information from the various departmental systems that provide financial information and present this information in a useful form to managers. Departments should develop financial reports that are easy to use and should provide appropriate training on the use of the systems and the information they produce.

Public Works and Government Services Canada's response. PWGSC is consolidating its financial information into one system, the Common Departmental Financial System (CDFS). Access to this information is provided through a range of standard and ad hoc reporting tools that include: direct access to CDFS for financial officers; indirect access through the

Management Reporting Module (MRM) for responsibility centre managers to review their revenues, expenditures, and budget; and access to a reporting database for management reports. As the CDFS is refreshed daily, it provides accurate and current financial information that supports operational managers. To date, the Department has trained, in the National Capital Area, over 190 financial officers on access to CDFS and over 398 line managers on the use and benefit of MRM. As the system is migrated to the regions and special operating agencies, training will be provided to over 170 additional financial training coaches. The availability of accrual-based information in CDFS will commence in 2003–04. The Department is actively exploring options for improving the integration of performance information and developing management reports that enhance the use of graphics in order to improve their effectiveness as a communication tool.

Transport Canada's response. Transport Canada agrees with the recommendation. In support of modern comptrollership, the Department is currently migrating to a new Web-enabled version of the Oracle Enterprise Resource Planning (ERP) suite and implementing new business intelligence tools. These systems changes, along with the redesign of business processes, will improve administrative efficiency within the Department, provide improved management information, and expand the reach of the Department's internal and external clients using Web-based methods for service delivery. In particular, the project includes a June 2004 implementation of new intuitive financial reporting and budgeting/planning tools. The introduction of these tools, and improved business processes, will provide more accessible, useful financial information for decision making. As part of the implementation process, there will be extensive processes to define user requirements, including ongoing working groups and consultations, cross-country managerial workshops, tool demonstrations, and interviews, to ensure that the financial information needs of managers are addressed. Training plans are also being developed to ensure that managers will be adequately trained. The new business intelligence tools also support data warehousing and will provide the necessary foundation for integrated reporting of financial and non-financial information. Transport Canada's Modern Comptrollership/Management Office will be overseeing the integration of financial and non-financial information within the Department, along with the implementation of other modern comptrollership principles.

Department of Foreign Affairs and International Trade's response. The Department is developing its Business Intelligence solution, which currently integrates financial and non-financial information from a number of source systems. The plans are to also integrate activity business lines and other program information into the solution, which will provide managers with useful and timely reports in their areas of operations. Training currently exists for the systems outlined above and will be enhanced in line with the systems' evolution.

Human Resources Development Canada's response. The Department concurs with the recommendation. It continues to develop and improve

reporting tools that integrate financial and non-financial information while at the same time providing the flexibility to meet managers' needs.

Conclusion

- **2.81** In this audit we examined how departments and central agencies were managing the quality of financial information.
- 2.82 Departments did not have regular, ongoing processes to determine and respond to the information needs of managers. Practices were ad hoc in two of the departments we audited.
- 2.83 In general, current quality assurance practices in departments, such as reconciliation of data transferred to the central systems and verification of management information on free balances, are designed to support the financial reporting processes. However, these practices vary by department and within departments.
- 2.84 The Treasury Board Secretariat has made some effort to provide guidance to departments on managing financial data quality, but it needs to do more.
- 2.85 The Receiver General has established quality assurance practices for the government-wide data it collects from departments. Its work with departments has helped to reduce the number of errors in those data.
- 2.86 Data quality needs to be looked at in the context of overall financial management, which is continuing to evolve in the Government of Canada. To get high-quality financial information that will support good management, the government and departments need to create the right environment and infrastructure—one that encourages managers to demand appropriate, good-quality financial information at the right time.
- 2.87 Quality assurance is a department-wide responsibility. All employees must understand the purpose of data and take ownership to ensure data quality. While quality control practices applied at the end of the business process are useful, these detective practices are not as cost-effective as those that ensure proper entry of the data at source. Staff need to be educated so that they can apply quality control procedures when data are created and/or updated.
- 2.88 The government has invested a lot in people, accounting policies, and financial systems in its move to a modern financial management environment. It has been two years since the government put in place the new financial systems for its Financial Information Strategy. It is now time to follow through with a concerted effort, led by the Treasury Board Secretariat and senior management, to begin reaping the benefits of this significant investment. This effort will involve encouraging the active participation of all managers in ensuring high-quality financial information, its appropriateness to their needs, and its use in day-to-day decision making.

About the Audit

Objectives

The objective of the audit was to determine whether the government has put in place appropriate systems, policies, and practices to manage the quality of financial information for managers. This consisted of the following two parts:

- determining whether departments have put in place financial systems, policies, and practices to provide managers with appropriate and reliable financial information; and
- determining whether central agencies have put in place systems, policies, and practices to provide guidance to departments and to manage the overall quality of government financial information.

Scope and approach

We carried out our audit at the Department of Foreign Affairs and International Trade; Human Resources Development Canada; Public Works and Government Services Canada, primarily the Real Property Services Branch; the Royal Canadian Mounted Police; and Transport Canada.

We also reviewed the results of controls assessments carried out by our Office over the past two years in eight federal organizations as part of our planned move to a controls-reliant approach to auditing the Public Accounts of Canada. The organizations were Agriculture and Agri-Food Canada, Canada Customs and Revenue Agency, Canadian Heritage, Public Works and Government Services Canada, Indian and Northern Affairs Canada, the Department of Foreign Affairs and International Trade, and Fisheries and Oceans Canada, as well as the government-wide Regional Pay System managed by Public Works and Government Services Canada.

We also assessed the roles of the Treasury Board Secretariat and the Receiver General in providing overall direction and guidance on managing the quality of financial information.

The audit team interviewed about 80 financial and operational managers in the departments and about 10 managers in central agencies. The team reviewed relevant documentation, including departmental surveys of managers that examined issues related to corporate information systems and reporting. To test the accuracy of departmental data, we reviewed a statistical sample of transactions in each of the departments.

Criteria

For the departments, the summary audit criteria were the following:

- Senior management and the department have appropriate policies and practices to determine the information and data needs of departmental management.
- Senior management and the department have a sound understanding of the nature of the information and data and their fitness for use. Departmental management has in place a data quality assurance policy and practice to ensure that data used by management are accurate, consistent, complete (in entirety, breadth, and depth), timely (and up-do-date), usable, relevant, and secure.

For the central agencies, the summary audit criteria were the following:

- Central agencies demonstrate information management leadership by providing appropriate guidance to departmental and agency management.
- Central agencies have a sound understanding of the nature of the government-wide information and its fitness for use. Senior management in central agencies have in place information management policies and practices to ensure that government-wide information used by central agency management is available, accurate, consistent, complete (in entirety, breadth, and depth), timely (and up-to-date), usable, relevant, and secure.

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Report of the Auditor General of Canada to the House of Commons—April 2003

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2003



Report of the
Auditor General
of Canada
to the House of Commons

APRIL

Chapter 3
Canada's Strategy to Combat Money Laundering







2003



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The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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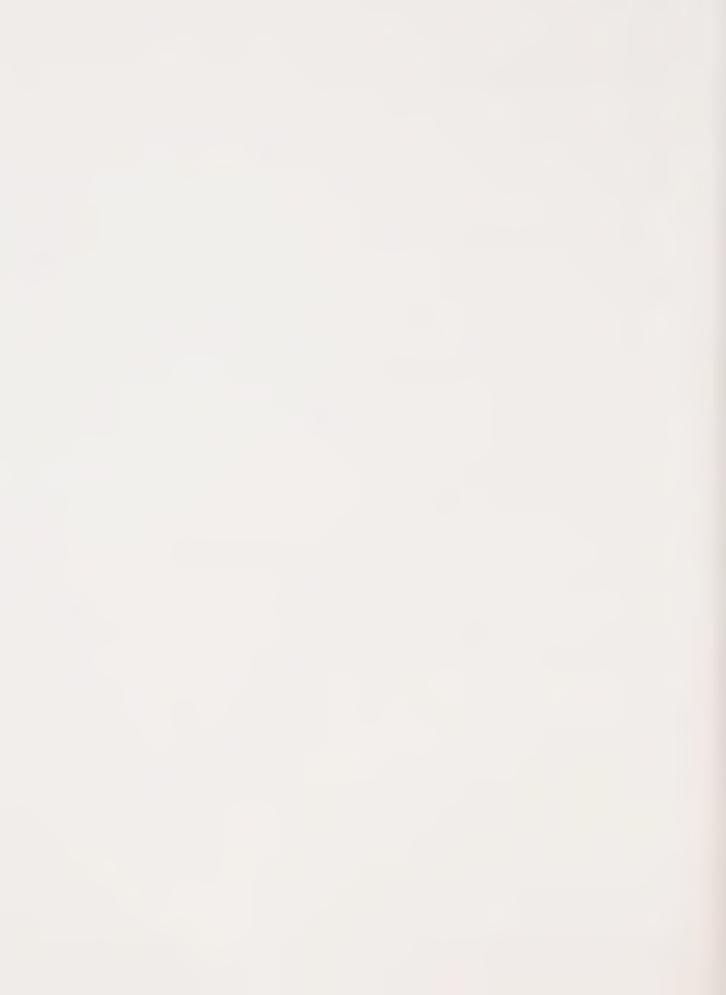
Chapter

3

Canada's Strategy to Combat Money Laundering

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Canada's Strategy to Combat Money Laundering

Main Points

- 3.1 Over the past 15 years the international community has strengthened its efforts to combat drug trafficking, organized crime, and terrorism. As a key part of this strategy, countries are focussing on the money trail that links criminals to their crimes. They identify, seize, and confiscate criminal proceeds—the profits made from crimes.
- **3.2** Canada acted quickly to put in place legislation to deal with proceeds of crime and money laundering. However, until recently the legislation lacked two elements of what is now viewed as the international norm for an effective system to combat money laundering:
 - mandatory reporting of suspicious and certain other financial transactions, and
 - a financial intelligence unit to analyze these reports and to release information to intelligence and law enforcement agencies when appropriate.
- 2000 to close these gaps. Its centrepiece was a new *Proceeds of Crime (Money Laundering) Act.* A total of \$139 million was budgeted over the first four years to establish the Financial Transactions and Reports Analysis Centre of Canada and to help the Centre's partners to perform their roles. In 2001 both the Act and the mandate of the Centre were amended to include provisions to detect and deter terrorist financing. The Centre received an additional \$34 million over three years for that role.
- 3.4 Canada's strategy to counter money laundering seeks to strike a balance among its various objectives. They are to strengthen law enforcement, protect personal information, and support international efforts to combat money laundering. The strategy also seeks to keep to a minimum the costs that organizations, such as banks, trust companies, and foreign-currency exchanges, incur to comply with the law to keep records, identify clients, and report unusual or suspicious transactions. With the new law, the balance has shifted to give greater weight to strengthening law enforcement, in Canada and internationally.
- **3.5** To meet its goals to reduce money laundering and terrorist financing, the federal government will need to deal with a series of challenges. These include the following:
 - to protect the privacy rights that Canadians enjoy under the Canadian Charter of Rights and Freedoms,

- to develop financial intelligence that is high in quality, and that assists law enforcement and other agencies in their investigations,
- to respond to the particular challenges posed by terrorist financing, such as following the trail of small deposits and withdrawals,
- to make financial organizations and the public aware of the new rules under the legislation and to ensure that they comply with the rules,
- to establish and maintain effective working relationships across a broad range of partners and stakeholders, and
- to measure how effective the federal efforts to combat money laundering and terrorist financing are.

Background and other observations

- Money laundering is a form of financial crime in which the proceeds from criminal activity are made to appear legitimate. The goal of many criminal acts is to make a profit for the individual or group that commits the crime. A strategy to fight money laundering seeks to reduce crime by making it harder for criminals to keep and use their profits.
- Both the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Anti-terrorism Act state that Parliament must review the Acts and how they are administered. To prepare for these parliamentary reviews, the Office of the Auditor General has developed a reporting process with two parts.
 - This study sets the stage for a future audit of the federal government's strategy to combat money laundering. It describes money laundering and the key challenges to combatting it.
 - In November 2004 we will address the issue of how well those challenges are being managed.

Introduction

- **3.8** Money laundering is a form of financial crime. It is the process of disguising or concealing the profits or proceeds of crime to make them appear legitimate. "Dirty money" produced through criminal activity is changed into "clean money." The criminal origin of the clean money then becomes difficult to trace.
- 3.9 Money laundering has been described as a problem involving billions of dollars in Canada and many more billions worldwide. Drug trafficking is believed to be the main source of funds laundered in and through Canada, although other crimes such as fraud and smuggling are also thought to be important.
- **3.10** The objective of money laundering legislation is to reduce crime by making it harder for criminals to keep and use their profits. Measures are put in place to detect and deter money laundering and to make it easier to investigate and prosecute money laundering offences.

The building blocks

- **3.11** The building blocks of Canada's strategy against money laundering were put in place in the late 1980s and early 1990s.
 - Money laundering was made a criminal offence under the Criminal Code in 1989. The legislation also provided the authority to seize or restrain the proceeds of certain crimes and provided immunity to people who voluntarily reported suspicious transactions to the police.
 - Beginning in 1990, the Office of the Superintendent of Financial Institutions issued guidelines and best practices for combatting money laundering. The Office also reviews compliance with these guidelines as part of its overall risk-based program of supervision of financial institutions that are federally regulated.
 - The first piece of legislation, the *Proceeds of Crime (Money Laundering)*Act in 1991 required financial institutions to introduce a system to keep records and to identify clients in order to preserve financial trails for large financial transactions (over \$10,000).
 - In 1991 the RCMP established three Integrated Proceeds of Crime units to investigate and prosecute major organized criminals and crime groups. Ten more were set up across Canada in 1996.
 - In 1993 the RCMP and the Canadian Bankers Association signed a memorandum of understanding for voluntary reporting of all transactions that were suspicious and that might indicate money laundering.

Keeping pace with the international community

3.12 While the system that Canada put in place was broadly consistent with international standards of the time, those standards were changing. Canada was criticized for lagging behind. In 2000 the *Proceeds of Crime (Money*

Laundering) Act was replaced by new legislation having the same name, but with a broader scope.

- The Act made it mandatory to report suspicious transactions and large cross-border movements of currency. The requirements to keep records also expanded beyond the financial sector to include accountants, real estate dealers, government agencies, and others when they acted as financial intermediaries. (Following constitutional challenges, the requirement for lawyers to report suspicious and large cash transactions, and to put in place a compliance regime, has been suspended. The courts will hear a test case to determine whether this requirement breaches solicitor-client privilege.)
- The legislation established the Financial Transactions and Reports
 Analysis Centre of Canada, which receives and analyzes reports
 provided by financial institutions and other businesses. The legislation
 also states that the Centre will monitor whether the businesses and
 financial institutions are complying with the requirement to keep
 records and report certain transactions.
- 3.13 With these changes, Canada's strategy to combat money laundering was once again consistent with those in place in other countries that are members of the Financial Action Task Force on Money Laundering. The government budgeted a total of \$139 million over four years to the Financial Transactions and Reports Analysis Centre and other federal departments and agencies to help meet their additional responsibilities. Exhibit 3.1 sets out the roles of federal departments and agencies, along with their budgets.
- 3.14 In 2001, the Anti-terrorism Act broadened the scope of the Proceeds of Crime (Money Laundering) Act and the mandate of the Financial Transactions and Reports Analysis Centre to allow it to detect and deter terrorist financing. The Act was renamed the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.
- 3.15 The provisions of the *Criminal Code* that deal with the application of the proceeds of crime were also expanded. From a limited list of serious crimes, they can now be applied to almost all crimes that a person can be charged with. The *Immigration and Refugee Protection Act* was also changed so that a person who is a member of an organized crime group that is laundering money can be denied entry to Canada.

Focus of the study

- 3.16 Both the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Anti-terrorism Act state that Parliament must review the Acts and how they are administered by a specific date:
 - the Proceeds of Crime (Money Laundering) and Terrorist Financing Act within five years (by 5 July 2005), and
 - the Anti-terrorism Act within three years (by 18 December 2004).

Exhibit 3.1 National initiative to combat money laundering: Roles of federal departments and agencies and their budgets

Roles of federal departments and agencies		Budget for federal departments and agencies (\$ millions)				
	2000-01	2001-02	2002–03	2003-04	Total	
Canada Customs and Revenue Agency	5.3	6.0	6.0	6.0	23.3	
 Receives declarations of import and export of large amounts of cash or money in other forms, and transmits them to the Financial Transactions and Reports Analysis Centre of Canada. 					23.0	
Enforces system to report when large amounts of money are taken across Canada's borders.						
Investigates the evasion of taxes or duties related to money laundering or terrorist financing						
Canadian Security Intelligence Service		_	_			
Investigates threats to national security linked to money laundering and terrorist financing.						
Citizenship and Immigration Canada	0.0	0.7	0.7	0.7	2.1	
Prevents entry of, or arranges to remove non-citizens who engage in money laundering across national borders.						
Department of Finance	0.3	0.3	0.3	0.3	1.2	
Develops and evaluates policy and regulation.						
Acts as lead department in international discussions on money-laundering and terrorist-financing issues.						
Department of Justice	0.6	1.2	1.2	1.2	4.2	
Prosecutes money-laundering offences.						
Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) ¹	18.0	25.5	26.3	21.3	91.1	
 Receives and analyzes transaction reports. Discloses information, if related to a money-laundering offence, to law enforcement agencies. 						
Makes public more aware of money laundering.						
Ensures that financial organizations comply with record keeping and rules about reporting large transactions.						
Office of the Superintendent of Financial Institutions	76.17%	MAJEMA	_	_	40-4-	
Reviews policies and procedures to combat money laundering as part of its program of supervision of federally regulated financial institutions and life insurance companies.						
Royal Canadian Mounted Police	2.6	4.9	4.9	4.9	17.3	
Investigates money-laundering offences related to <i>Criminal Code</i> and other federal statutes.						
Total	26.8	38.6	39.4	34.4	139.2	

¹ FINTRAC also received funding to detect and deter terrorist financing in the amounts of \$10.0 million in 2001-02, \$14.7 million in 2002–03, and \$9.5 million in 2003–04.

Source: Based on information provided by the Treasury Board of Canada Secretariat.

- 3.17 In preparation for these parliamentary reviews, the Office has developed a reporting process involving two steps (see About the Study at the end of the chapter):
 - The current study sets the stage for a future audit of the federal government's strategy to combat money laundering. It describes money laundering and the key challenges to combatting it.
 - In November 2004 we will address the issue of how well the federal government is managing those challenges.

Observations

Understanding money laundering

What is money laundering?

- 3.18 The term "money laundering" is believed to have first been used in the United States in the 1920s to describe one method criminals used to make their profits or proceeds of crime appear legitimate. They turned to retail businesses that operated on a cash basis. The goal was to mix criminal proceeds with legal income and report the total as legitimate business earnings. It was termed money laundering because laundries were popular choices for changing dirty money into clean money.
- 3.19 There are a number of definitions of money laundering. Some focus on how the criminal puts the proceeds of crime into the financial system, for example, deposits directly into banks or through a business. Broader definitions equate money laundering with almost any use of criminal profits. The common thread in these definitions is the criminal's goal: to disguise the proceeds of crime to make them appear legal.
- **3.20** Canadian law does not define money laundering; rather the *Criminal Code* defines the offence of laundering the proceeds of crime; the Code and other federal acts define the criminal activities that produce the proceeds of crime.
 - A laundering offence is any act to disguise the source of money or assets by a person who knows or believes that they were obtained from certain forms of criminal activity in Canada or abroad.
 - These criminal activities include drug trafficking, bribery, fraud, forgery, murder, robbery, counterfeiting money, and manipulating stock prices.
- **3.21** Money laundering does not include all illegal activity. Disguising the proceeds of tax or duty evasion, for example, is not a money-laundering offence. In those cases, the government has argued that specific rules and procedures in other legislation are adequate to deal with the proceeds from offences. The *Income Tax Act*, for example, provides its own penalties for tax evasion and procedures for recovering unpaid tax.
- **3.22** Money laundering is a specific type of crime. The actual transactions used to launder the profits of crime are both legal and commonplace; making bank deposits, wiring funds, and exchanging currency are examples. What

makes these acts illegal is that the source of funds is from criminal activity and the reason behind the acts is to disguise their criminal origins.

- **3.23** For a person to be convicted of money laundering, it must be proved beyond a reasonable doubt that the funds or property were the proceeds of crime, that the accused had knowledge or belief of that fact, and that the accused intended to disguise them.
- 3.24 Much of the proceeds of crime are not laundered in the sense that the term is usually used. Rather, they are spent by the criminal or held in cash or bank accounts inside or outside Canada to be spent at a later date, with no attempt made to disguise their origins. A purchase of motor vehicles for personal use, for example, is thought to be one of the most common uses of the proceeds of crime.

Is there a relationship between money laundering and terrorist financing?

- **3.25** Money laundering involves the processing of the profits of crimes that were committed in the past so as to disguise their illegal origin. The financing of terrorism, however, involves the processing of funds—whether obtained legally or illegally—to be used in future crimes.
- **3.26** Following the terrorist attacks of 11 September 2001, Canada has taken a number of steps to combat terrorist financing. They are aimed at assisting the police to detect and deter the financing of terrorist activities and to investigate and prosecute offences that are related to terrorist financing.
- **3.27** Terrorist groups differ from large criminal organizations in several important ways.
 - Motivation. While drug traffickers and organized crime groups seek
 primarily monetary gain, terrorist groups usually have non-financial
 goals that motivate them. According to one definition, the primary goal
 of terrorism is "to intimidate a population or to compel a government to
 do something, or abstain from doing any act."
 - Source of funds. The financial dealings of a terrorist organization are difficult to investigate since its funds may come from legitimate businesses that the terrorists may own and donations they have received from sympathizers. The apparently legal sources of funds may mean there are few, if any, indicators that would make one or a series of transactions stand out.
 - The size and nature of financial transactions. Individual financial transactions tied to terrorist operations may involve amounts that are not large enough to trigger existing reporting thresholds. An FBI analysis of the events surrounding 11 September 2001, for example, indicates that the hijackers each opened accounts with a single cash or wire transfer deposit in the average amount of US \$3,000 to \$5,000. The analysis also showed that they made numerous withdrawals in small amounts using mostly debit cards.
 - Transfers of money outside the traditional financial system. There are ways to transfer money from one person or country to another other

than using banks or financial institutions. *Hawala* and similar methods of transferring money such as the *Fei ch'ien* and *Hundi* systems have also played a role in moving terrorist funds. In the *Hawala* system, a person gives money to an agent in one country, who tells an agent in another country to give money to a specific person. The transfer is all handled through word of mouth. Funds moved this way do not leave a paper trail similar to one that would be left if the person used a traditional financial setting like a bank.

3.28 As a result, it is difficult to follow terrorist money trails. For the three-year period ending 2003-04, the government has allocated a total of \$34 million to the Financial Transactions and Reports Analysis Centre to detect and deter terrorist financing. Regulations have been developed for reporting transactions that appear to be related to terrorist financing.

What is known about the extent and impact of money laundering?

- 3.29 Since money laundering and the criminal activities that it attempts to conceal are hidden, it is difficult to determine how widespread money laundering is. As we noted in the Auditor General's 2002 Report, Chapter 4, The Criminal Justice System: Significant Challenges, estimates of the extent and effects of organized crime are based on limited information, often repeated from one report on money laundering to another.
- 3.30 A number of studies have reached the conclusion that there are no reliable estimates of either the extent or impact of money laundering in Canada or internationally. For example, in its most recent strategy to combat money laundering the United States Treasury states, "We still do not know the full magnitude of the money-laundering problem. The various efforts to attempt to answer this question over the years have not been satisfactory." As a result, estimates that are frequently used in Canada and internationally should be viewed with a degree of scepticism.
- 3.31 Nevertheless, there is a consensus that the Canadian government should pay attention to money laundering and terrorist financing. Drug trafficking—considered to be the source of much of the money laundered through Canada—is believed to be a business earning multi-billion-dollar amounts per year. Economic crimes such as fraud are also thought to be widespread in Canada.
- **3.32** The goal of a large number of criminal acts is to make a profit for a criminal individual or group. Money laundering enables the criminal to enjoy these profits without putting the criminal source of funds in danger of being discovered. Once laundered, the proceeds of crime can be used to finance further criminal activity, creating a cycle of crime.
- 3.33 The economic costs of money laundering can take many forms. For example, honest businesses cannot compete fairly with those that derive part of their income from money laundering. When money is laundered through financial institutions, the reputation, and even the integrity, of each of the institutions could be ruined.

How is money laundered?

3.34 Most of the criminal activities that require money laundering generate cash. Money laundering is usually described as a three-stage process involving placing the proceeds of crime into the financial system, creating layers of financial transactions to disguise their origins, and then moving the laundered funds back into the legitimate economy (Exhibit 3.2).

Exhibit 3.2 The money-laundering process

Money laundering is generally described as a three-stage process intended to make the profits or proceeds of crime appear legitimate.

- In the initial or placement stage of money laundering, the launderer introduces the criminal proceeds into the financial system.
- This might be done by breaking up large amounts of cash into less obvious smaller sums that are then deposited directly into a bank account. The criminal might put the money into other forms such as cheques or money orders that are then collected and deposited into accounts at another location.
- It is at this stage that potential money laundering can be most easily detected.
- 2. After the funds have entered the financial system, the second—
 layering—stage takes place. In this phase, the launderer engages in a series of changes, or moves the funds several times to create distance from the source.
- The funds might be used to buy and sell investments such as stocks and bonds.
 The launderer might wire the funds through a series of accounts at various banks around the world.
- In some instances, the launderer might disguise the transfers as payments for goods or services. This would give them a legitimate appearance.
- 3. Having successfully processed the criminal proceeds through the first two phases of the money laundering process, the launderer then moves them to the third stage—integration—in which the funds re-enter the legitimate economy.
- The launderer might choose to invest the funds in real estate, luxury assets, or business ventures.
- At this third stage, it is very difficult to distinguish between legal and illegal funds.

Source: Based on information from the Financial Action Task Force on Money Laundering

- 3.35 The simplest forms of laundering take place close to where the original crime was committed. For example, money laundering may involve purchasing and then cashing in casino chips. In this way, the criminal profits are changed into what appears to be legal gambling profits. More complex examples can involve the purchase and sale of stocks, commodities, or property.
- 3.36 These techniques are best suited to relatively small and/or occasional sums. When the criminal activity is continuous, cash-based retail businesses such as car washes and laundries, video-game arcades, video rentals, and bars and restaurants have been used. Proceeds of crime are mixed with legal funds

and the total reported as legitimate business earnings. Any additional tax that may be due is treated as a cost of doing business.

- 3.37 When the amounts of cash to be laundered become larger, and as domestic law enforcement becomes better at identifying money laundering, the laundering process is more likely to have an international component. In addition, the three stages of money laundering tend to become more distinct.
- 3.38 Bulk cash has been carried or shipped out of the country, or transferred through formal or informal financial systems. Alternatively, funds have been moved through companies that engage in international trade in goods and services and thus have credible explanations for moving funds abroad.
- **3.39** An offshore corporation or trust may then receive the funds and place them within the international financial system. At that point, the owner of the funds may be protected by bank secrecy, corporate secrecy, and possibly solicitor-client privilege, which also provides secrecy.
- 3.40 There are a number of techniques that criminals have used to access these funds from home: from a debit or credit card issued by an offshore bank, through domestic accounts of a foreign bank, as profit from real estate sales or securities trading, as salary or business income from a foreign company, or as a business loan.

How is money laundering detected?

- **3.41** A successful money launderer tries to mimic legal transactions. As a result, it is often very difficult to differentiate illegal from legal transactions until law enforcement officers target a particular criminal act that has been committed and then unravel the money trail.
- 3.42 Law enforcement officers receive information from a wide range of sources when conducting criminal investigations. Traditionally, the focus has been on the original crimes, and money laundering has become visible only in the course of subsequent investigation. Analysis of RCMP investigations conducted before the new *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* was introduced, for example, indicates that most proceeds-of-crime cases originated in other law enforcement units, notably drug enforcement.
- 3.43 Being able to identify a client or "know your customer" is a basic part of a system to fight money laundering. At the local level, front-line employees—who deal with customers on a day-to-day basis—are believed to be in the best position to identify what might be an unusual or suspicious transaction or pattern of transactions. These employees have become the first line of defence in the federal government's efforts to combat money laundering. They are in a position to detect the criminal or another person injecting the proceeds of crime into the financial system.

- 3.44 Anti-money laundering systems attempt to establish money trails by focussing first on unusual financial transactions. From the perspective of a financial institution, a transaction may appear unusual based on
 - normal industry practices and knowledge of the client (for example, the client starts making frequent cash transactions in large amounts, when this has not been a normal activity for the client in the past); or
 - the behaviour of the customer (for example, the client gives confusing details about the transaction).
- 3.45 The transaction or series of transactions moves from the unusual to the suspicious when there are reasonable grounds to suspect that the transactions are linked to a criminal offence. This is a more difficult test, and the larger financial institutions use specially trained security staff to help make the determination.
- 3.46 The Financial Transactions and Reports Analysis Centre of Canada has published indicators to assist in identifying suspicious transactions (Exhibit 3.3). These indicators were compiled in consultation with reporting entities, law enforcement agencies, and organizations that specialize in international financial intelligence. The indicators are based on characteristics that have been linked to money laundering or terrorist activities in the past, and they will evolve over time.

Building a strategy to combat money laundering

Canada's growing international experience

- 3.47 International efforts to fight money laundering have been under way for more than 15 years. They were part of the war on drugs, expanded to include the proceeds of most other serious crimes, and most recently have been included in anti-terrorism efforts.
- 3.48 The United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) provided a framework for the international response to the problem of money laundering. Among other things, the Convention required countries to bring in legislation against the laundering of the proceeds of crime. Additional obligations were included in the 2000 United Nations Convention Against Transnational Organized Crime.
- 3.49 The Financial Action Task Force on Money Laundering was established following the G-7 Summit in July 1989, and Canada has been a member of the Task Force since it began. By setting and promoting international standards for anti-money-laundering systems, and identifying and listing non-cooperative countries, the Task Force seeks to limit the access of terrorists, narcotics traffickers, and other organized criminals to the international financial system.

Exhibit 3.3 Examples of common indicators of suspicious transactions

Category	Description
Cash transactions	Client starts conducting frequent cash transactions in large amounts when this has not been a normal activity for the client in the past.
	 Client consistently makes cash transactions that are significantly below the reporting threshold amount in an apparent attempt to avoid triggering the requirements to identify and report these transactions.
	 Client makes cash transactions of consistently rounded-off large amounts (for example, \$8,500 or \$9,900).
	• Stated occupation of the client is not in keeping with the level or type of activity (for example, a student or an unemployed individual makes daily maximum cash withdrawals at multiple locations over a wide geographic area).
Econòmic purpose	 Transaction involves non-profit or charitable organization for which there appears to be no logical economic purpose, or where there appears to be no link between the stated activity of the organization and the other parties in the transaction.
	 Transaction appears to be out-of-the-ordinary for industry practice or does not appear to be economically viable for the client (for example, taking a mortgage or a loan at a high rate of interest).
General	 Client appears to have accounts with several financial institutions in one area for no apparent reason.
	 Client's home or business telephone number has been disconnected or there is no such number when an attempt is made to contact client shortly after opening account.
	Client insists that a transaction be done quickly.
Identity documents	Client wants to establish identity using something other than his or her personal identification documents.
	All identification presented is foreign or cannot be checked for some reason.
	All identification documents presented appear new or have recent issue dates.
Knowledge of reporting or record-keeping requirements	Client attempts to convince employee not to complete any documents required to report the transaction.
	Client has unusual knowledge of the law about reporting suspicious transactions.
Transactions involving accounts	 Account with a large number of small cash deposits and a small number of large cash withdrawals.
	Client frequently uses many deposit locations outside of the home branch location.
	 Dormant account containing a minimal sum is reactivated. Then the account suddenly receives a deposit or series of deposits. This is followed by frequent cash withdrawals until the transferred sum has been removed.
	 Multiple personal and business accounts are used to collect and then funnel funds to a small number of foreign beneficiaries. This is particularly suspicious when they are in locations of concern, such as countries known or suspected to assist in money-laundering activities.
Transactions involving areas outside Canada	 Credit card issued by a foreign bank that does not operate in Canada is used by a client that does not live or work in the country where the card was issued.
	 Deposits followed within a short time by wire transfer of funds to or through certain locations. These countries are of concern because they are known or suspected to assist in money-laundering activities.

Exhibit 3.3 Examples of common indicators of suspicious transactions

Category	Description
Transactions related to offshore business activity	Frequent requests for travellers' cheques, foreign currency drafts, or other negotiable instruments.
onshore business activity	Transactions involving an offshore "shell" bank whose name may be very similar to the name of a major legitimate institution.
	Unexplained electronic funds transfers by client on an in-and-out basis.

Source: Financial Transactions and Reports Analysis Centre of Canada Guideline 2: Suspicious Transactions May 9, 2002

- 3.50 The Task Force originally drew up 40 recommendations in 1990 to combat the misuse of the financial system by persons laundering drug money. The recommendations provide a framework to fight money laundering. They include changes to the criminal justice system and law enforcement, the financial system and its regulation, and international co-operation. For example, each country is expected to do the following:
 - make money laundering a crime;
 - ensure that financial institutions identify their clients and maintain client and account records, and report suspicious transactions;
 - · monitor the flow of money across its border; and
 - co-operate with other countries to strengthen their efforts to combat money laundering.
- 3.51 The recommendations made by the Task Force were originally used only for the proceeds of crime involving drug trafficking. However, it was decided in 1996 to extend the recommendations to proceeds of all serious crimes. This decision was based on the experience that had been gained from investigating money laundering up to that point, and also on the fact that changes were being made in the way that money was being laundered. Money laundering techniques, for example, were becoming more sophisticated. The recommendations have now been endorsed by more than 130 countries and are widely accepted as the standards for preventing money launderers from using the financial system.
- 3.52 In 2002 the Task Force identified a number of areas for possible changes in its framework and invited comments from countries, international organizations, the financial sector, and other interested parties. Potential changes include modifying the way that customers are identified; changing the reporting process for suspicious transactions; identifying the actual owners of assets held by companies, trusts, and foundations; and applying the recommendations to professionals such as lawyers, accountants and financial analysts who might provide advice or other assistance in laundering criminal funds.
- 3.53 In April 2001 the executive boards of the International Monetary Fund and the World Bank agreed to improve the efforts made by both institutions in the global fight against money laundering. The institutions are working

with the Task Force and their member countries to incorporate the standards to combat money laundering into their surveillance and operational activities. They will also increase technical assistance, research, and education efforts in this area.

- 3.54 In the wake of 11 September 2001, at a special meeting on the financing of terrorism in October 2001, the Task Force expanded its mission beyond money laundering to include terrorist financing. The Task Force has issued new international standards to combat terrorist financing and called on all countries to adopt and implement them. The International Monetary Fund and the World Bank have also agreed to extend their involvement beyond anti-money-laundering to efforts aimed at preventing terrorist financing.
- 3.55 In June 2002 the Financial Transactions and Reports Analysis Centre of Canada was admitted as a member of the Egmont Group of financial intelligence units (FIUs). The Egmont Group was formed in 1995 to provide a forum for financial intelligence units to improve support to their respective national anti-money laundering programs. This support includes expanding and exchanging financial intelligence in a larger, more routine way, improving the expertise and capabilities of the personnel of these organizations, and fostering better communication among financial intelligence units by applying new technologies.

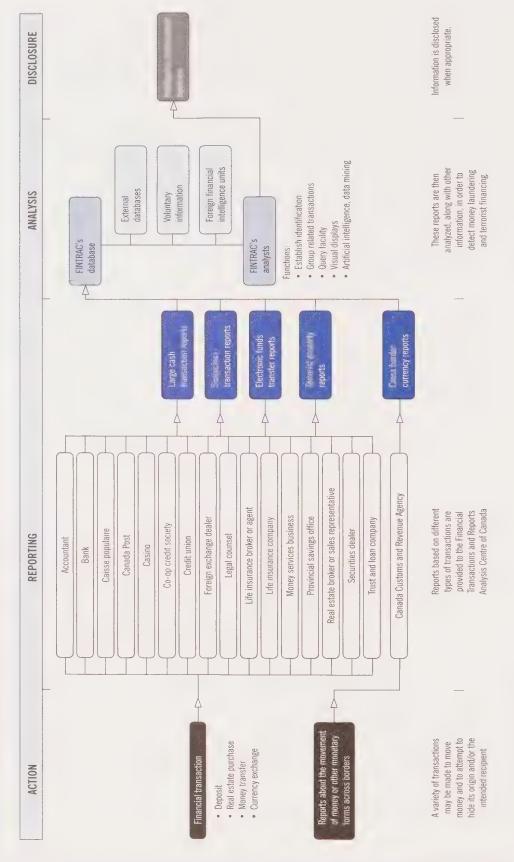
Canada's new strategy against money laundering

- 3.56 When the Financial Action Task Force evaluated Canada in 1997, it recommended that Canada implement a mandatory reporting scheme for suspicious transactions and cross-border currency movement. It also recommended that a central financial intelligence unit be established to collect, analyze, and share this information.
- 3.57 Canada's National Initiative to Combat Money Laundering was developed to address the shortcomings identified by the Task Force. Exhibit 3.4 sets out the current system of legislation and regulations.
- 3.58 The centrepiece is a new *Proceeds of Crime* (Money Laundering) Act which received royal assent on 29 June 2000. The legislation
 - established a system of mandatory reporting of suspicious and other types of transactions,
 - required the reporting of large cross-border movements of money, and
 - created the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).
- 3.59 Exhibit 3.5 shows how these pieces fit together. A variety of financial transactions may be associated with money laundering or terrorist financing, including deposits, money transfers, currency exchanges, and real estate purchases.

Exhibit 3.4 Implementation of key legislation and regulations to combat money laundering, by date

Legislation and regulations	Some key provisions
	Legislation
1989 Criminal Code	Makes laundering the proceeds of crime a criminal offence and allows law enforcement agencies to seize the proceeds of crime.
	Includes offences related to terrorist activities and the financing of terrorism.
2000, 2001 Proceeds of Crime (Money Laundering) and Terrorist Financing Act	Establishes requirements to keep records and identify clients for financial institutions and others open to being used for money laundering or the financing of terrorist activities.
	Requires reporting of suspicious financial transactions and cross border currency movements.
	Creates the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) responsible for dealing with reported and other information.
2001 Immigration and Refugee Protection Act	 Stipulates that a permanent resident or a foreign national canno be admitted if there are reasonable grounds to believe he or she has, is, or may engage in organized criminal activities, such as money laundering across national borders.
2002 (proposed) Public Safety Act	 Provides FINTRAC with the ability to collect information relevant to money laundering or terrorist financing that is stored in national security databases.
	Provides FINTRAC and the Office of the Superintendent of Financial Institutions with the ability to share information on hov financial institutions comply with the Act.
	Regulations
2001 Proceeds of Crime (Money Laundering) Suspicious Transaction Reporting Regulations	 Requires reporting where there are reasonable grounds to suspect that a financial transaction is related to a money-laundering offence.
2002 Regulations Excluding Certain Indictable Offences from the Definition of "Designated Offence"	Excludes offences under the <i>Income Tax Act, Excise Act, Excise Tax Act</i> , and other Acts from the proceeds-of-crime legislation and regulations.
2002 Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations	 Establishes requirements for reporting and keeping records of large cash transactions, confirming the identity of clients conducting transactions, and setting up a program to ensure tha institutions comply.
2002 Proceeds of Crime (Money Laundering) and Terrorist Financing Suspicious Transaction Reporting Regulations	 Expands the scope of reporting to include suspected terrorist financing and terrorist property.
2002 Cross-border Currency and Monetary Instruments Reporting Regulations	 Requires persons to report to Canada Customs and Revenue Agency's customs officers the importation or exportation of large amounts of currency and monetary instruments, such as stocks, bonds, bank drafts, and travellers' cheques.

Exhibit 3.5 The business process of the Financial Transactions and Reports Analysis Centre of Canada



Source: Taken from Annual Report of the Financial Transactions and Reports Analysis Centre of Canada, 31 March 2002

- **3.60** Financial institutions, currency exchange dealers, casinos, and others who act as financial intermediaries are required to report the following:
 - Suspicious transactions any financial transaction where there are reasonable grounds to suspect that it is related to a money laundering or terrorist-financing offence,
 - Large cash transactions the receipt of cash in amounts of \$10,000 or more,
 - Electronic fund transfers the transfer of funds of \$10,000 or more from Canada to another country or from another country to Canada,
 - Terrorist property cash, bank accounts, insurance policies, money orders, real estate, securities and travellers' cheques, and other types of assets known to be owned or controlled by a suspected terrorist group identified by the United Nations and listed by the Solicitor General.
- **3.61** Anyone who fails to report these transactions is committing an offence punishable by a fine of up to \$2 million and/or imprisonment for up to ten years. It is also an offence for a person to disclose to the criminals or money launderers or anyone else that a report has been made if the intent of the person is to prejudice the criminal investigation or prosecution.
- 3.62 The proceeds-of-crime legislation also requires that any person who imports or exports large amounts, \$10,000 or more in cash or other liquid assets such as travellers' cheques or blank money orders across the Canadian border must report to Canada Customs and Revenue Agency. It will then forward the report to the Financial Transactions and Reports Analysis Centre. Currency can be seized if it is not declared, but will be returned after the person pays a fine, unless Canada Customs and Revenue Agency has reasonable grounds to suspect that it represents the proceeds of crime.
- 3.63 The Financial Transactions and Reports Analysis Centre acts as a filter. Its primary function is to receive and analyze the reports required by the legislation. Through that analysis, it determines whether there are reasonable grounds to suspect that specific information about certain transactions would be relevant to the investigation or prosecution of an offence involving money laundering or terrorist financing. If the Centre's analysis determines that the information is relevant, it is passed on to the appropriate authorities.
- 3.64 The Centre is also responsible for protecting the information it receives through its various sources from disclosure to anyone who is not authorized to have that information. It must also ensure that financial institutions and others comply with the requirements in the Act to report transactions, keep records, and identify clients.

Key challenges

3.65 Canada was one of the last industrialized countries to introduce a system of mandatory reporting of suspicious transactions and to establish a financial intelligence unit to receive, analyze, and pass on the information. In developing its new strategy, therefore, Canada was able to draw on both its own experience and that of other countries.

3.66 Like other countries, Canada needed to strike a balance among the objectives of enforcing the law, protecting personal information, keeping to a minimum the cost of complying with the requirements, and supporting international efforts to combat money laundering. The model that has been adopted is similar to the one in place in most other countries; differences between countries tend to reflect their particular circumstances and constitutional frameworks.

Respecting the Canadian Charter of Rights and Freedoms and the privacy rights of Canadians

- 3.67 The Centre receives personal financial information about people who are engaged in legitimate financial transactions. This raises the issue of protecting a person's reasonable expectation of privacy under the Canadian Charter of Rights and Freedoms.
- 3.68 To protect the privacy of Canadians who are completing legitimate financial transactions, several safeguards and limitations were built into the Centre's mandate. These include
 - keeping the Centre itself independent and at arm's length from law enforcement agencies, such as the RCMP and other police forces;
 - restricting the amount of information that can be disclosed to law enforcement agencies;
 - · limiting the length of time that data can be kept; and
 - ensuring that there is a review by Parliament in the fifth year after the legislation's enactment.
- 3.69 Under the law, the Centre is also obliged to protect the personal information it stores from disclosure to an unauthorized party. To ensure that the information is protected, the Centre has put practices in place to manage information securely. This includes making sure that its facilities and equipment are secure physically and that its employees follow the security restrictions on information.
- 3.70 The legislation provides the Centre with authority to disclose personal financial information where there is a "reasonable suspicion." Section 8 of the Charter, the right to be secure against unreasonable search and seizure, has been interpreted by the courts to mean that a judge must authorize a request before personal financial information can be collected and given to law enforcement agencies. The judge's decision would be based on whether there were "reasonable and probable grounds" to believe that the financial transactions were being used for money laundering or terrorist financing.
- 3.71 In addition to protecting personal information from unauthorized disclosure, the Centre has other challenges. It must develop an operational definition of what constitutes "reasonable grounds to suspect" to guide decision-making about what information must be disclosed and why the information would be relevant to a money-laundering investigation or prosecution. Also, the Centre must develop appropriate procedures to balance the risk of not disclosing information that could prove beneficial to

investigations against the risk of making disclosures that result in unnecessary or unjustified investigations.

Developing high-quality financial intelligence for law enforcement

- 3.72 Law enforcement agencies use a variety of investigative techniques and intelligence sources to gather evidence against money launderers. The information that the Centre will pass on to law enforcement agencies is for two main uses:
 - to trigger new investigations of offenders not previously known to law enforcement; and
 - to assist with investigations into known or suspected offenders.
- 3.73 Once information on financial transactions is collected, it must be analyzed. How effective the analysis is will be measured in the long term by the effect it has on criminal investigations and the number of money-laundering prosecutions that law enforcement agencies are able to make. The information that the Centre provides to law enforcement agencies needs to be both useful and timely. To meet this challenge, the Centre has made three types of investments:
 - Analytical tools and methods—selecting indicators to identify transactions related to potential money laundering and terrorist financing, and accessing government and commercial databases of interest to the Centre including the Canadian Police Information Centre's national law enforcement database
 - Recruitment and training—choosing analysts with a variety of backgrounds, and providing them with specialized training in analysis
 - Information technology—setting up systems and software to structure the Centre's database, manage transaction reports and match and link data for analysis
- 3.74 The Centre expects to receive almost 3,000,000 financial transaction reports per year. This information is analyzed to determine whether there are links and patterns among individual transaction reports that appear to be suspicious, reports about currency that is moved across borders, or other relevant data to which the agency has access.
 - If links exist between these financial activities, and are found through the analysis, the identified pattern of behaviour might indicate moneylaundering or terrorist-financing activity.
 - Where money laundering or terrorist financing is suspected, the Centre must disclose selected information to the appropriate law enforcement agency. The selected information would include the name of the person or company who made the transaction, the name and address of the place where the transaction occurred, the time and date of the transaction, the amount and type of the transaction, the transaction number, and the account number used in the transaction.
 - The Centre must keep written records of the reasons why its employees decided to disclose the data to a law enforcement agency.

- The law enforcement authorities must conduct their own investigation but can seek a court order to obtain the rest of the analysis that the Centre developed. The judge must be convinced that there are reasonable grounds to believe that an offence involving money laundering or terrorist financing has been committed and the information requested is likely to greatly assist in the investigation of the offence.
- 3.75 The challenge for the Centre, therefore, is to develop and enhance the ability to analyze the information in order to identify transactions that indicate money laundering or terrorist financing. The information that it discloses should also add value to the investigation of criminal offences.

Responding to the particular challenges posed by terrorist financing

- 3.76 We noted earlier that terrorist groups differ from large criminal organizations in several important ways: the reasons for their financing activities, the sources of their funds, the size and nature of the financial transactions they complete, and the way that they move funds outside the traditional financial system. As a result, it is difficult to follow the trails made when terrorists move money around.
- 3.77 The Department of Finance has developed regulations that govern how suspicious transactions related to terrorist financing should be reported. As part of the anti-terrorism initiative, the Centre was provided with additional resources to build its ability to detect and deter terrorist financing.
- 3.78 The Centre has begun the process of acquiring the specific tools and indicators needed to uncover the activities that show potential terrorist financing. The Centre is also building a team of analysts who will focus on terrorist financing. As with money laundering, the challenge is to develop the ability to analyze information and to disclose it in a way that will improve the investigation of offences related to terrorist financing.

Promoting awareness and compliance

- 3.79 The Centre has two additional mandates. The first is to increase the public's awareness and knowledge about money laundering and terrorist financing. The second is to ensure that a broad range of financial intermediaries comply with the legislation and its regulations.
- 3.80 The Centre has identified more than 100,000 financial and other entities that could be subject to the new reporting requirements. These range from large banks to single practitioners such as a self-employed accountant or lawyer. Only a small proportion falls within the financial sector that is regulated by the federal or provincial governments.
- 3.81 Based on the experience of United States officials, the Canada Customs and Revenue Agency expects to receive about 40,000 cross-border reports each year. It has incorporated the new requirements into the existing procedures.

3.82 One of the challenges for the Centre and the Canada Customs and Revenue Agency is to ensure that financial entities and the traveling public are aware of their obligations. The second is to develop an efficient and effective program to ensure that they comply.

Establishing and maintaining effective working relationships

- 3.83 As noted earlier, the ultimate objective of the federal government's strategy to combat money laundering and terrorist financing is to reduce crime. To succeed, co-operation, co-ordination, and information sharing are needed at several levels:
 - with the financial sector, to identify suspicious and potentially criminal activity;
 - within the federal government, where eight agencies have direct responsibilities related to money laundering;
 - between governments, including with provincial regulators, lottery and gaming corporations, and provincial and local law enforcement agencies; and
 - internationally, to deal with cross-border crime and havens for money launderers and those who finance terrorism.
- **3.84** As the lead agency, the Department of Finance faces the challenge of ensuring that effective working relationships among these partners and stakeholders are developed and maintained. This will allow each to do its part in meeting the strategy objectives. A timely flow of information and intelligence is particularly important.

Measuring the effectiveness of federal efforts

- **3.85** There are a number of challenges associated with measuring how effective a strategy to combat money laundering is.
 - The absence of benchmarks. There are no reliable measures of the amount of money laundering that occurs. Nor is there an agreed methodology, in Canada or internationally, for determining that amount.
 - Difficulty of attributing results to a particular intelligence source.

 Law enforcement agencies use a variety of investigative techniques and intelligence sources to gather evidence against money launderers.

 Because the information to prosecute and convict criminals comes from different sources, it may be difficult to determine the effect of the information provided by the Centre on the results of investigations.
 - The length of time required for investigations. Investigations into proceeds of crime are usually quite complicated and involve long complex chains of evidence. It is not unusual for several years to pass between the start of an investigation and a decision on the case.
- 3.86 For more than a decade, members of the Financial Action Task Force on Money Laundering have been conducting self-assessments and peer reviews of their systems set up to combat money laundering. These

assessments have focussed on the need to comply with the 40 recommendations made by the Task Force in 1990 to combat money laundering.

- 3.87 The assessments have indicated that the member countries have followed most of the 40 recommendations. In other words, compliance has been high.
- 3.88 The assessments have also found, however, that only a small number of member countries have set up systems that let them know how financial transaction reports are used by law enforcement agencies. In addition, the assessments showed that members did not know whether the information from the reports resulted in money launderers being charged and convicted, or in the proceeds of crime being confiscated. The Task Force concluded that "it was not possible for the examiners to come to any firm conclusions on the issue of effectiveness."
- 3.89 When the Canadian government approved funding for the National Initiative to Combat Money Laundering, it directed that the Initiative be evaluated in the third year of its operation. The evaluation would assess whether the program design and the funding provided were appropriate. The government also directed that the Initiative be formally evaluated in the fifth year to assess whether it had met its objectives. In addition, the formal evaluation will address privacy issues, whether the Initiative is cost-effective, and whether alternative approaches might produce better results.
- 3.90 Although the National Initiative was launched in 2000, it did not become fully operational until the supporting regulations came into force. Reporting about suspicious transactions was not mandatory until November 2001; other types of reporting began in 2002. The challenge for the Department of Finance and its partners is to ensure that a meaningful evaluation is completed before Parliament reviews the legislation.

Conclusion

- **3.91** At the end of 2004 we will report on how the federal government's strategy to combat money laundering has been implemented. In particular, we expect that the federal government will have responded efficiently and effectively to the challenges identified in this report:
 - respecting the Canadian Charter of Rights and Freedoms and the privacy rights of Canadians;
 - developing high-quality financial intelligence to enforce the law;
 - responding to the particular challenges posed by terrorist financing;
 - ensuring that banks, other financial agents, and the public are aware of their legal requirements and comply with them;
 - establishing and maintaining effective working relationships across a broad range of partners and stakeholders; and

- measuring whether federal efforts are effective in reducing money laundering and terrorist financing.
- 3.92 Canada's strategy to combat money laundering seeks to strike a balance among the objectives of
 - enforcing the law,
 - protecting personal information,
 - · keeping down the costs of complying with the legislation, and
 - supporting international efforts to fight money laundering.
- **3.93** With the new legislation, the balance between these objectives has shifted to give greater weight to the needs of law enforcement and to the support of international efforts.
- 3.94 Both the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Anti-terrorism Act state that Parliament will review the Acts and their administration beginning in late 2004. Members of Parliament will therefore have an opportunity to determine whether the right balance is being struck.

About the Study

Objectives

Both the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Anti-terrorism Act state that Parliament must review the Acts and how they are administered:

- The Proceeds of Crime (Money Laundering) and Terrorist Financing Act within five years (by 5 July 2005); and
- The Anti-terrorism Act within three years (by 18 December 2004).

In preparation for these parliamentary reviews, the Office has developed a reporting process that has two steps.

- This study sets the stage for a future audit of the federal government's strategy to combat money laundering. It describes money laundering and the key challenges to combatting it.
- In November 2004 we will focus on how well those challenges are being managed.

Scope and approach

As part of the first step, we interviewed officials from Canada Customs and Revenue Agency, the Canadian Security Intelligence Service, Citizenship and Immigration Canada, the Department of Finance, the Department of Justice, the Department of the Solicitor General, the Financial Transactions and Reports Analysis Centre of Canada, the Office of the Superintendent of Financial Institutions, and the Royal Canadian Mounted Police. We also consulted international bodies involved in combatting money laundering, and we reviewed related laws and regulations, domestic and foreign reports on money laundering, and initiatives to fight money laundering.

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Report of the Auditor General of Canada to the House of Commons—April 2003

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2003



Report of the
Auditor General
of Canada
to the House of Commons

APRIL

Chapter 4
Correctional Service Canada—
Reintegration of Women Offenders







2003



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Chapter 4

Correctional Service Canada— Reintegration of Women Offenders







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The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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Chapter

4

Correctional Service Canada
Reintegration of Women Offenders

All of the audit work in this chapter was conducted i Canadian Institute of Chartered Accountants. While we also draw upon the standards and practices of oth	in accordance with the standards for assurance engagements set by the le the Office adopts these standards as the minimum requirement for our audits, ther disciplines.

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Correctional Service Canada Reintegration of Women Offenders

Main Points

- 4.1 Over the last 12 years, Correctional Service Canada has accomplished a great deal in changing how women offenders are incarcerated and rehabilitated. Based on the work of its Task Force on Federally Sentenced Women, the Service has altered the way women who are sentenced to two years or more serve their sentences. The Task Force brought about the closing of the Kingston Prison for Women, which was replaced with five new regional facilities across Canada during a period of significant growth in the population of women offenders. There has also been a renewed emphasis on developing rehabilitation programs for women.
- 4.2 While Correctional Service Canada has made progress, some challenges and problems remain. The Service has not tested the reliability of the instruments it uses to assess women offenders. In the short term, this testing is fundamental to making the right decision about an offender's security level and her program needs for successful rehabilitation. In the longer term, incorrect assessment could lead to reoffending and the social costs it brings.
- **4.3** There are gaps in the delivery of programs and services both in the institutions and in the community:
 - Correctional Service does not consistently deliver rehabilitation programs on time for incarcerated women offenders. These programs are a critical factor in preparing offenders for a National Parole Board review at their parole eligibility dates.
 - Correctional Service needs to implement a comprehensive, more gender-specific model for treating substance abuse, a much-needed program for the rehabilitation of women offenders.
 - Women offenders have little access to meaningful work opportunities and employment programs while they are incarcerated. Gaining work skills is considered an important factor in their successful reintegration into the community.
 - Correctional Service Canada has difficulty meeting the program and service needs of women offenders in the community. Lack of substance abuse programs and inadequate mental health services are critical areas for improvement.

Background and other observations

4.4 Correctional Service Canada is responsible for maintaining the security of federally sentenced women offenders and preparing them for reintegration

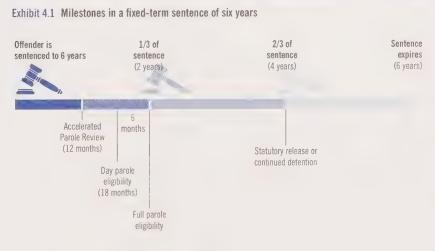
into the community, both while they are incarcerated and while they are on parole. Since 1995, the number of women offenders in federal correctional care has increased more than 30 percent.

- Of the \$57 million spent in 2001–02 on women offenders in federal institutions, about \$13 million is for institutional reintegration activities. The Service does not report total annual expenditures for women offenders under its supervision and care in the community.
- 4.6 We also found that Correctional Service needs to
 - review the process of developing correctional plans for women offenders to determine the causes of late completion, and
 - examine the use of other mechanisms for offenders' reintegration (temporary absences, work releases, and special custodial and release arrangements for Aboriginal women) and identify opportunities to improve existing practices.

Correctional Service Canada has responded. Correctional Service has generally accepted our recommendations. Its responses indicate what it is doing or plans to do to address them.

Introduction

- 4.7 Correctional Service Canada has two main responsibilities: the incarceration of offenders and their safe reintegration into the community. In 2001–02, there were 810 women serving federal sentences of two years or longer. Of those, 452 (53 percent) were supervised in a large number of communities across Canada. About 5 percent of all federal offenders are women.
- 4.8 In 2001–02, institutional costs for women offenders totalled about \$57 million. This is about 5 percent of the total federal expenditures in all institutions (excluding capital costs). Custody-related costs totalled \$44 million, with another \$13 million spent on activities to prepare offenders for reintegration. The costs of supervising women offenders in the community are not reported separately. Correctional Service has made some attempts to collect that information but has been hampered by the lack of gender-specific coding in its financial information systems.
- A.9 The Corrections and Conditional Release Act (1992) gives the National Parole Board the authority to release offenders on full parole conditionally when they have served one third of their sentence. Offenders become eligible for day parole six months before the date of their eligibility for full parole (Exhibit 4.1). Under Accelerated Parole Review, offenders who are serving their first federal sentence and have not been convicted of a violent crime or serious drug offence can be released on day parole after serving one sixth of their sentence, unless there are reasonable grounds to believe they will commit a violent offence before their sentence ends. According to the Act, the purpose of conditional release is to contribute to public safety by releasing offenders at a time and in a manner that increases their chances of successful reintegration into the community.



Source: Corrections and Conditional Release Act

A brief history of the incarceration of women offenders

- **4.10** In 1934, the Prison for Women was built in Kingston, Ontario. It housed all federal women offenders from all regions of Canada at all security levels (maximum, medium, and minimum). Federally sentenced women had previously been incarcerated in a wing of Kingston Penitentiary, a men's institution.
- **4.11** Government commissions and parliamentary committee reports over the past several decades have expressed concern about the conditions under which women serve federal sentences.
- 4.12 Most of these reports raised three main problems:
 - the incarceration of women far away from their families;
 - the quality of rehabilitation programs available to women in the institution; and
 - the incarceration of women offenders in a facility with a higher security level than required.
- 4.13 Many of the reports recommended closing the Prison for Women; the first such recommendation came from the Archambault Commission in 1938. Plans for building a new women's prison started in 1956 but, like some later plans, they were not carried out.
- **4.14** In 1990, the Task Force on Federally Sentenced Women issued *Creating Choices*, a report that became the foundation of an entirely new approach to corrections for women serving federal sentences.
- 4.15 The Task Force concluded, "The ability of CSC to meet its responsibility for federally sentenced women has been eroded by trying to fit a small, diverse, relatively low-risk group of women with multi-faceted needs into a system designed for a large, more homogenous and higher-risk population. In the process, inequality and insensitivity to the needs of federally sentenced women have become unanticipated consequences of our current system."
- **4.16** *Creating Choices* cited two critical elements for change:
 - closing the Prison for Women and replacing it with five regional facilities and one healing lodge for Aboriginal women; and
 - developing a comprehensive community release strategy that would expand and strengthen programs and services available to women offenders after their release.
- 4.17 The regional facilities and the healing lodge were intended originally to house women offenders at all security levels (minimum to maximum). The comprehensive community strategy was to provide for halfway houses, addiction treatment centres, placements in private homes, multi-resource centres, and accommodations that would allow women to live with their children.
- 4.18 Six years later, Madame Justice Louise Arbour restated many of the Task Force's conclusions in her 1996 report on a violent confrontation

between six inmates and correctional staff at the Prison for Women. She concluded the following:

- Women commit fewer violent crimes than men.
- When women do commit the same crimes as men, the underlying factors are considerably different and tend to indicate a much lower risk of reoffending.
- Women pose a lower security risk than men.
- A far higher proportion of women offenders than male offenders have the primary responsibility for child care.
- **4.19** Based on the research reported during the proceedings, Madame Arbour reached the same conclusions as the Task Force on Federally Sentenced Women: that women offenders should receive services and programs designed for them specifically and not just ones adapted from programs designed for males.
- **4.20** By 1997, the five new regional facilities were operating; the Prison for Women in Kingston officially closed in July 2000.

A profile of Canadian women offenders serving federal sentences

- 4.21 The number of women offenders serving federal sentences grew from 646 in 1995 to 849 in 2000, an increase of 30 percent. Research by Correctional Service Canada indicates that in 1998–99, an adult woman convicted of a major crime was significantly more likely to receive a federal sentence than in 1994–95. In other jurisdictions (for example, the United States, United Kingdom, and Australia), the population of female offenders has seen similar growth.
- **4.22** The following are some key features in the profile of women offenders, based on Correctional Service data (see also the Appendix to this chapter):
 - About 13 percent are classified as maximum security, 48 percent as medium security, and 38 percent as minimum security.
 - One in three women offenders is incarcerated in Correctional Service's Prairie Region, a large proportion of them Aboriginal.
 - Nationally, 26 percent of incarcerated women offenders are Aboriginal.
 - Drugs account for more than a third of offences by women.
 - About 80 percent of incarcerated women are serving their first federal sentence; 37 percent are under the age of 30.
 - More women offenders (42 percent of the total in 2001–02 compared with 31 percent in 1997–98) are returning to the community after serving two thirds of their sentence (statutory release) instead of earlier on parole.
 - Almost half of all women offenders supervised in the community are in the Toronto, Montreal, Edmonton, and Vancouver areas.

A profile of the 42 women offenders in maximum security in June 2002

- Serving their first federal sentence: 81%
- Identified as having a substantial substance abuse problem: 69%
- Convicted of robbery, murder, or aggravated assault: 55%
- Diagnosed with a mental health problem:50%
- Aboriginal: 43%
- Under 25 years of age when admitted to maximum security: **41%**
- Serving less than 3 years: 26%
- · Serving a life sentence: 19%

- 4.23 Our review of pertinent research and literature identified several characteristics that are common to women who offend and that illustrate the severity of their problems:
 - · Many had experienced some form of physical abuse.
 - A higher proportion of women than male offenders had suffered from mental health problems.
 - They had tended to harm themselves.
 - They had abused substances.
 - Many of their income-generating crimes (shoplifting, forgery, prostitution, robbery, transporting drugs) were directly related to supporting their addictions.
 - They had less legitimate experience in the workforce than male offenders.
- 4.24 The literature also identifies factors that help women reintegrate into the community successfully when released from prison: safe and affordable housing that allows them to reunite with their children; participation in substance abuse treatment and recovery programs; and education and skills that lead to a job at a living wage.

Challenges in housing women offenders

- **4.25** Over the last 12 years, Correctional Service Canada has spent a great deal of time and resources to complete and expand correctional institutions for women offenders across Canada. The Service's first response to Creating Choices was an ambitious building program that saw five new facilities open in four regions between 1995 and 1997:
 - · Nova Institution in Truro, Nova Scotia
 - Joliette Institution in Joliette, Québec
 - Grand Valley Institution in Kitchener, Ontario
 - Edmonton Institution for Women in Edmonton, Alberta
 - Okimaw Ohci Healing Lodge in Maple Creek, Saskatchewan
- 4.26 The budget for this building program was \$55 million, with operating costs estimated at \$16 million a year. After the institutions were built, they had to be expanded to house an ever-growing population of women offenders. When more units and beds at minimum security were needed, Correctional Service added them to the existing regional facilities instead of building separate units without fences for minimum-security women.
- 4.27 Originally, women with maximum security ratings were to be housed in the regional institutions. However, after a series of incidents at the Edmonton Institution for Women in early 1996, the Service removed the maximum-security women from the Edmonton and Nova institutions and fortified the fences surrounding these institutions.
- 4.28 A few women remained at the Prison for Women in Kingston, Ontario until mid-2000. All other maximum-security women were housed in special



Edmonton Institution for Women, Edmonton, Alberta

units at three institutions for male offenders—in Quebec, Saskatchewan, and Nova Scotia. This situation lasted seven years, from 1996 to 2003.

- 4.29 In 1999, as part of its Intensive Intervention Strategy, Correctional Service directed that special units be built in each regional facility to house maximum-security women and those with mental health problems. The maximum-security units cost about \$25 million and began operating in early 2003. The mental health units cost an estimated \$6 million to build and have been operating since December 2001.
- **4.30** The Sumas Community Correctional Centre in British Columbia will be retrofitted in 2004 as a multilevel-security institution for federal women offenders. It will house federal women offenders currently incarcerated with provincial women offenders at the Burnaby Correctional Centre for Women.
- **4.31** Today, these regional facilities are multilevel-security institutions and are fenced, with two exceptions. The Healing Lodge for Aboriginal women has no fence and houses minimum- and medium-security women. The Isabel McNeil House in Kingston, operated by Grand Valley Institution, houses a small number of minimum-security women.

The process for reintegrating women offenders

- **4.32** Correctional Service uses a case management process to manage the reintegration of offenders (Exhibit 4.2). The process is essentially the same for men and women offenders and consists of a number of stages that include the following:
 - obtaining official documents required for assessing the security risk and the needs of each offender;
 - assessing offenders to identify the factors that led to their criminal behaviour and developing a correctional plan to address those factors;
 - assigning and scheduling offenders to participate in reintegration programs and other interventions to prepare them for release hearings before the National Parole Board;
 - assessing whether participation in programs or other interventions has helped reduce the risk that an offender will commit another offence after being released;
 - making recommendations to the National Parole Board on the offender's suitability for release to the community;
 - releasing the offender—on parole by the National Parole Board, or by law after two thirds of the sentence (statutory release) or at the end of the sentence (warrant expiry);
 - providing supervision, further programs, and assessment in the community until the end of the sentence; and
 - reporting the case to the National Parole Board if an offender presents an elevated risk that warrants review by the Board.

Exhibit 4.2 The process for reintegrating offenders Institution Community Offender intake assessment National parole denied parole granted Correctional plan arole Board hearing Institutional Community supervision programs programs and services Continuing further Case preparation assessment for National Statutory Parole Board release

Focus of the audit

Sentence begins

- 4.33 The purpose of this audit was to assess how well Correctional Service Canada was managing the process for reintegrating women offenders. In May 2000, the subcommittee of the Justice and Human Rights Committee, having reviewed the Corrections and Conditional Release Act, recommended that the Auditor General "carry out an evaluation of the process of reintegration into the community available to women..." This recommendation was endorsed by the Solicitor General.
- 4.34 Some quantitative information presented in this chapter is based on data provided to us by Correctional Service. We have attempted to assess these data through a process of analysis, comparison, and discussion. Unless otherwise indicated in this chapter, these data should be treated as unaudited.
- **4.35** Further details on our audit objective and criteria are presented in About the Audit at the end of the chapter.

Observations and Recommendations

Assessing women offenders

Various tools are used to assess offenders

- 4.36 Correctional Service Canada uses various tools to assess women offenders when they enter the prison system and throughout their sentences. These assessments are critical to making the right decisions about the level of security at which women offenders will be placed and their rehabilitation plans. We reviewed these tools and the Service's use of them.
- 4.37 Intake assessments. When they arrive at the institution, all new offenders go through an assessment process. The offender intake assessment identifies the factors that led to the individual's criminality. That information then forms the basis for developing a correctional plan that prescribes programs to deal with the risk factors identified for the individual.

Sentence ends

Throughout the sentence, Correctional Service assesses the offender's progress against the correctional plan to make various decisions, including conditional release to the community.

- 4.38 The initial intake assessment is a critical step in creating a suitable menu of programs for an offender. Therefore, it is essential for Correctional Service to ensure that the assessment tool itself is valid and appropriate. The Service has not completely tested this instrument. This is a concern because the issues surrounding criminality in women may need to be considered differently from issues surrounding criminality in men.
- 4.39 Initial security classification. When an offender enters an institution, Correctional Service Canada uses the Custody Rating Scale to determine what level of security is warranted—maximum, medium, or minimum (this scale was designed in 1987, based on the characteristics of the male offender population). Classification at the proper security level is critical because it will determine an offender's access to programs, temporary absences, and work releases into the community. Classification is also a means to guard against unduly excessive controls, in keeping with the Corrections and Conditional Release Act that governs Correctional Service Canada's operations. The Act requires that the Service impose the least restrictive conditions possible on the offender's incarceration given the level of risk he or she presents.
- 4.40 To ensure the scientific integrity of any assessment instrument, it is standard practice to conduct a full set of tests for validity (does the instrument measure what it intends to measure?) and reliability (do different parole officers use the tool in a consistent way?). These standard practices are widely accepted and have been used in developing robust classification instruments in the field of corrections.

Tools used to assess offenders need more testing

- 4.41 Testing for validity. While Correctional Service has completed some tests of the Custody Rating Scale's validity for women offenders, more testing is required. For example, research has demonstrated that there are several factors (such as physical, mental, and sexual abuse; severity of the current offence; and employment history) that may need to be considered differently when dealing with women offenders. The Service needs to explore how it weighs these factors.
- 4.42 Another important area is how assessment scores are grouped in the assessment instrument. Research recently conducted in the United States on the risk classification of prisoners looked at 31,000 women and 238,000 men. It concluded that while using the same instrument to classify women and men may be appropriate, different cut-off points in assessment scores should be used to designate any given security level. Currently, Correctional Service Canada uses the same cut-off points for men and women offenders.
- 4.43 Testing for reliability. We found that the reliability of the Custody Rating Scale for classifying women offenders has not been tested. Correctional Service needs to complete a full test of the Scale's reliability for

women, including tests of inter-rater reliability. If an instrument is reliable, for example, regardless of who assesses an offender the assessment will indicate the same security level. If the instrument is not reliable, the same offender could be given a different, inappropriate security level, potentially limiting access to correctional programming. Further, the use of an unreliable instrument could call into question the testing of its validity.

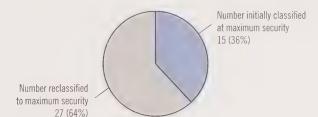
- 4.44 Ongoing periodic tests of this kind are required to assess the adequacy of existing training and quality controls for those using this instrument. We did not conduct audit work to conclude whether initial security classification ratings have been appropriate. However, these ratings are considered critical and the Service has so far not conducted all the necessary work to ensure that the Custody Rating Scale is administered appropriately.
- **4.45** Recommendation. Correctional Service Canada should complete its validation and reliability tests of classification instruments used for women offenders and take any necessary action indicated by the test outcomes.

Correctional Service's response. We have conducted a variety of research studies examining our tools for women offenders. The results have been published and therefore are available for peer review. We accept the suggestions that there are additional assessments that could be done; therefore, as part of the 2003–2004 Research Program, the Service will embark on a further review.

An appropriate tool for security reclassification is not in use

- 4.46 Security reclassification. There are two ways of placing women offenders in maximum security: initially, using the Custody Rating Scale; and throughout the sentence, in subsequent reclassification. As already noted, about 13 percent of women in institutions were classified as maximum security. Exhibit 4.3 shows that of the 42 women in maximum security at June 2002, 36 percent or 15 women were placed directly in a maximum-security facility in the initial intake process. The remaining 64 percent or 27 women were transferred to maximum security in the reclassification process.
- 4.47 All of the women who were reclassified were moved to maximum security as a direct result of their misconduct while incarcerated—for example, drug or alcohol use, violent disagreements with other inmates, or verbal abuse of Correctional Service staff. In reviewing their files, we found two frequently identified factors that contributed to their misconduct: continued substance abuse and adjustment problems related to mental health.
- 4.48 File information indicated that half of the women who were reclassified suffered from various forms of mental impairment. For example, several suffered from cognitive impairment or mental retardation. Their behaviour caused disruption within the institution and their transfer to maximum security was deemed to be the only feasible option. In some cases Correctional Service was unable to provide appropriate psychiatric intervention, mainly because of lack of bed space at correctional psychiatric units.

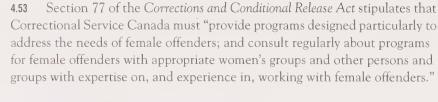
Exhibit 4.3 Women offenders—Route to maximum security (Figures are from June 2002)



- 4.49 Many of the women reclassified to maximum security had severe substance abuse problems; some were cross-addicted to several substances. Despite the Service's zero-tolerance policy, several of these offenders managed to continue their substance abuse. Although the Service makes an attempt to keep disruptive women in medium security, we found that some of them had not been treated for their substance abuse before being transferred to maximum security.
- 4.50 The limited number of programs available in maximum security units and the level of motivation of the offenders can make it difficult for Correctional Service to meet its rehabilitation objectives for these 42 women. Although attempts were made to move them back to a lower security level, we found that almost half of the women have been or will be released directly from maximum security into the community after serving two thirds of their sentence. Women offenders released at the statutory release date are less likely to reintegrate successfully into the community than those released on parole.
- **4.51** The Service has undertaken to develop a tool for the reclassification of women. It has taken almost five years to design and test this new reclassification instrument. At the time of our audit, it had not been implemented. In its absence, parole officers can recommend increasing the security level to maximum if the offender is considered to be a "high risk" because of adjustment problems in the institution.
- **4.52 Recommendation.** Considering the significant impact of reclassification decisions on an offender's rehabilitation, the Service should increase its efforts to implement the new reclassification tool for women offenders as quickly as possible.

Correctional Service's response. The Service agrees with this recommendation. The Service had already initiated extensive research over the past three years and is reaching the final stages of the national field test for a gender-specific security reclassification instrument, which is expected to be completed in the fall of 2003. This tool has been designed to provide a standardized and objective method to guide security reclassification decisions for women.

Programs for women offenders



The Correctional Program Strategy represents progress

- 4.54 In 1994, Correctional Service Canada developed the Correctional Program Strategy for federally sentenced women offenders. Drawing on an evaluation of programs then available at the Prison for Women, the Service set out to assess the most important programs and services for women offenders. The strategy led to the development of a menu of core program areas: living skills; survivors of abuse/trauma; literacy and continuous learning; and substance abuse.
- 4.55 Since 1994, the Service has developed many programs for women offenders: Survivors of Abuse/Trauma, Substance Abuse (Phases I and II/Solutions), Parenting Skills, and the Mother and Child Program. Others are modified versions of programs for male offenders, such as Anger and Emotions Management and Cognitive Skills.
- 4.56 Specifically for Aboriginal women, Correctional Service provides the Family Life Improvement Program (FLIP) and Spirit of a Warrior, a violence prevention program. Both are available to Aboriginal women in maximum security units in the Prairie Region. Correctional Service also offers Circle of Change, designed to help Aboriginal women at the Healing Lodge gain living skills they may lack.
- 4.57 Correctional Service has made considerable progress in developing programs for women offenders. However, management still needs to focus on improving its data on referrals, program completions, and expenditures. The Service has taken steps to improve these data.
- 4.58 While Correctional Service Canada has moved ahead in implementing its correctional program strategy, it still has not evaluated the effectiveness of its intervention programs for women. These programs are generally based on the cognitive behavioural approach (changing behaviour by teaching critical thinking and problem-solving skills) currently used in Canada, Europe, and the United States. However, little research has been conducted to determine the effectiveness of this approach for women.

Delays in program delivery can lead to postponements of parole hearings

4.59 It is a major challenge for Correctional Service Canada to deliver the programs prescribed for individual offenders, especially those serving sentences of less than three years. The Service has a limited number of days to move these offenders through the appropriate programs. In that time, staff must also document the offenders' cases for National Parole Board release hearings. Even minor delays in moving offenders through the prescribed programs can result in the postponement of their hearings.



Computer room—program area
Grand Valley Institution, Kitchener, Ontario.

- 4.60 Delays in developing individual correctional plans can contribute to offenders' inability to meet their parole eligibility dates. Correctional Service data indicate that the on-time completion of correctional plans from April to October 2002 ranged from 41 percent to 85 percent across all women's institutions. In our file review of women whose parole eligibility dates had passed, 22 percent of the cases showed correctional plans finalized less than a month before the first parole eligibility date or after the date had passed. Correctional Service reports some improvement in the completion rate of correctional plans.
- **4.61** File information showed that lack of timely access to programs is a major factor contributing to delays in the case management process. In about one third of the cases we reviewed, some of the core programs prescribed in the correctional plan had not even begun by the date of the individual's eligibility for review before the National Parole Board.
- 4.62 How programs are offered can also cause delays—for example, offenders generally can take only one program at a time. Moreover, one of the most frequent programs, which takes six weeks to complete, must be preceded by another that takes three months. And the small population of women offenders can make it difficult to fill a course so it can be delivered.
- 4.63 With a steady increase since 1996 in waivers and postponements of reviews for full parole, it is important that Correctional Service review how programs are delivered to better ensure that they prepare offenders for parole by their eligibility dates. Almost 60 percent of women offenders admitted in 2001–02 are serving sentences of less than three years, and problems in program delivery could affect most of them.
- **4.64** Recommendation. Correctional Service Canada should review the process of developing correctional plans to determine the underlying causes of late completion. It should also set a target to improve the timely completion of correctional plans for women offenders and meet it within a year.

Correctional Service's response. The Service agrees with the recommendation. We have focussed our attention in this area and have already seen improvement. Our efforts will continue.

4.65 Recommendation. Correctional Service Canada should review how it delivers programs to women offenders and make the necessary changes to better prepare incarcerated women offenders for parole at the earliest possible date.

Correctional Service's response. Correctional Services Canada benefits from an array of partners and community agencies that assist in research and program development to help fill the void in this area. We will continue to look for further opportunities in this field. At this time, programs are being designed for women on the basis of open entries to provide more timely access. Additionally, the standard on minimum group size for program delivery for women has been removed, allowing for smaller groups of women offenders to complete desired programs.

The new substance abuse program needs to be implemented

- 4.66 The literature, assessment data, and our discussions with staff and offenders indicate that substance abuse is one of the most serious problems of women offenders. Research by Correctional Service indicates that women offenders have more severe problems with both drugs and alcohol than male offenders have. Relapse into substance abuse is the main reason why conditional releases of women offenders are suspended.
- 4.67 Since 1995, Correctional Service has provided a variety of substance abuse programs for women (the Offender Substance Abuse Prerelease Program, Solutions, and Substance Abuse Phases I and II) and in 1999 it created a panel of international experts to assess the existing programs. The panel found the need for a more comprehensive model—a more intensive, more gender-specific program with built-in continuity inside the institution and into the community.
- 4.68 Correctional Service Canada has used the panel's recommendations and the subsequent input of staff and inmates to develop a new model for treating substance abuse, and pilots are scheduled across all regions in 2003. The new model considers more effectively the rehabilitation environment—the importance of drug-free units, peer support, and a detoxification protocol. It also ensures that newly admitted women are brought into the program quickly to minimize the risk of continued substance abuse while incarcerated.
- **4.69** Correctional Service Canada is also developing separate substance abuse modules specifically for Aboriginal women. Training and pilot tests are scheduled for winter 2004.
- **4.70** Given the magnitude of the substance abuse problem among women offenders both in federal institutions and in the community, we encourage Correctional Service to implement this new model as quickly as possible.
- **4.71 Recommendation.** Correctional Service Canada should undertake, on a priority basis, the full implementation of the proposed intensive, gender-specific substance abuse program for women offenders.

Correctional Service's response. The Service agrees with this recommendation. The program has been developed and training of program facilitators is already scheduled for May 2003, with program delivery expected to begin in June 2003.

The contribution of the state

4.72 Correctional Service Canada strives to help offenders with their rehabilitation mainly through a series of core programs aimed at altering criminal behaviour. It also supports other activities that both law and practice have recognized can help offenders rehabilitate themselves. Most such activities are designed to help offenders maintain positive contacts in the community.

The use of temporary absences and work releases can be improved

4.73 Correctional Service uses temporary absences from the institution to prepare offenders for re-entering the community. Temporary absences



Okimaw Ohci Healing Lodge—Maple Creek, Saskatchewan

(escorted or unescorted) can be used for medical and other administrative purposes or for maintaining family contact or attending programs in the community.

- 4.74 We found that the use of temporary absences is highly inconsistent from region to region. In 2001–02, for example, two of Correctional Service's smallest regional facilities supported as many unescorted temporary absences as Grand Valley Institution and Edmonton Institution for Women, yet they have less than half the offender population of both those institutions.
- 4.75 Work releases are another opportunity to sustain rehabilitation. They provide for on-the-job training and potential job contacts in the community. According to Correctional Service data, only about 7 percent of women offenders in minimum and medium security participated in work releases during 2001–02. Our file review indicated that work releases are not regularly built into correctional plans for women offenders, even though developing marketable skills contributes to an offender's successful reintegration into the community.

Little use is made of legislative provisions for Aboriginal offenders

- 4.76 Sections 80 to 84.1 of the Corrections and Conditional Release Act dictate that the Service shall provide programs designed particularly to address the needs of Aboriginal offenders. The overrepresentation of Aboriginal offenders in the federal correctional system has been recognized for some time. Aboriginal women are more overrepresented at 26 percent of the incarcerated population than are incarcerated Aboriginal males at 18 percent.
- **4.77** Section 81 of the Act authorizes Correctional Service to enter agreements with Aboriginal communities for the provision of services and the care and custody of inmates. Agreements under section 81 require the Solicitor General's approval.
- 4.78 Section 84 allows an inmate to apply for parole into an Aboriginal community. It provides the Aboriginal community with an opportunity to propose a plan covering the inmate's release to, and integration into, that community. The objective is that Correctional Service will work in partnership with Aboriginal communities to provide more effective rehabilitation opportunities for Aboriginal offenders.
- 4.79 From April 2001 to November 2002, there were eight section 84 releases of Aboriginal women and no section 81 agreements. We conducted file reviews of women offenders whose first parole eligibility dates had passed and of women in maximum security. We found that sections 81 and 84 are generally not discussed at any length with Aboriginal women offenders during the intake process. Even when there are references to these legislative provisions in developing the correctional plan, discussion appears to be cursory.
- **4.80** While we note that interest in these provisions by offenders and communities is an important prerequisite to their use, Correctional Service

has a critical educating role to play. It needs to place more emphasis on actively encouraging Aboriginal women offenders and Aboriginal communities, especially in urban settings, to take advantage of the benefits and advantages of these provisions. It also needs to inform parole officers more about the legislation and the parole officer's role in its application.

4.81 Recommendation. Correctional Service Canada should examine the present use of temporary absences, work releases, and the use of sections 81 and 84 of the Corrections and Conditional Release Act across all facilities; identify practical solutions; take action to increase their use; and assess progress within a year.

Correctional Service's response. The Service agrees with this recommendation. We are currently examining these issues and will take advantage of opportunities on a case-by-case basis where appropriate. The Service will continue to work closely with the Aboriginal communities to build active co-operation in developing these initiatives. The Service recognizes the importance of unescorted temporary absences and work releases in the gradual reintegration of offenders. However, they can be used only if they are consistant with our mandate to contribute to public safety. We will continue to monitor this on an ongoing basis.

Few employment programs are provided

- 4.82 Corcan is a special operating agency responsible for prison industries, employment, and vocational training programs for all offenders. The literature indicates that women offenders need assistance in developing marketable skills for future employment. Without job skills, they tend to revert to their former lifestyle, which then leads them back to criminal behaviour.
- 4.83 Women offenders have minimal access to meaningful work opportunities while they are incarcerated. Furthermore, they have few opportunities for job training that will prepare them for eventual employment in the community. An inventory of current work opportunities for incarcerated women reveals two modest Corcan enterprises—a men's underwear sewing shop in Joliette that employs up to 18 women and a silk-screening and embroidery shop in Edmonton that employs about 15 women. Grand Valley, the largest facility for women, does not have a Corcan shop.
- 4.84 Nor are there more than a few vocational programs available to women offenders. Those that are offered teach specific skills in areas such as horticulture, dog training, food preparation, home maintenance, and cosmetology. The programs offer about 60 seats in total and vary from two days to six months. Some provide for certification by an external body.
- 4.85 Women offenders under community supervision have access to the same employment counselling centres as male offenders. However, the centres could improve their services by addressing the unique challenges facing women parolees who look for employment—challenges such as child care responsibilities and lack of recent work experience and qualifications.

- 4.86 Corcan reported that its employment counselling centres to some degree helped 61 women find employment. Examples of the jobs women found include telemarketing; clerking in a grocery store, a coffee shop, and a sandwich shop; and groundskeeping in a cemetery. However, Corcan does not track the number of women parolees who seek help at its employment counselling centres. Nor does it track the number of women parolees who enrol in its job-readiness program.
- 4.87 In our 1999 Report, Chapter 1, on the reintegration of male offenders, we indicated that Correctional Service Canada needed to develop a clear operational strategy for employment programs. In April 2000, Correctional Service introduced the Employment and Employability Program to ensure that offenders are "job ready" when they are released into the community. At the time of our audit, however, the program had not been implemented in any of the women's institutions and Correctional Service had no employment strategy designed specifically to meet the unique needs of women offenders.
- **4.88 Recommendation.** Correctional Service Canada should develop and implement a women's employment strategy that includes certification of marketable skills in order to better prepare women for future employment.

Correctional Service's response. The Service will look to increase viable employment opportunities designed to focus on marketable skills. However, the length of sentence, coupled with programming requirements, will continue to be a challenge.

Reintegration practices in the community

- 4.89 Correctional Service delivers various programs and services in the community that are aimed at helping offenders complete the process of their rehabilitation and reintegration. These services allow offenders to build on programs provided to them in prison in preparation for adjusting to life outside. Creating Choices recognized the importance of providing offenders with programs and support in the community.
- 4.90 Our audit found that despite some improvement in community-based programs for women offenders, many of the problems identified in *Creating Choices* continue. Some persist because usually there are relatively few women offenders in any one area. Other problems arise from the absence of a management structure and controls to guide reintegration activities for women offenders in the community.

Community accommodation for women is a challenge

- 4.91 A fundamental part of reintegrating in the community is having safe and appropriate housing. Correctional Service's review of community resources in 2001 indicated that nationally, the total number of bed spaces for women in halfway houses was sufficient. However, the review emphasized that district directors needed to work on providing enough access to alternative types of accommodation, such as placements in private homes and supervised apartments.
- **4.92** Correctional Service has indicated that it has at least one halfway house for women in each of four regions. In the Atlantic Region, temporary funding has been made available to provide appropriate housing for women

until a community correctional centre can be completed in 2004. Challenges remain, however, especially when women seek releases to locations other than the cities where these accommodations exist.

- 4.93 Correctional Service has temporary funding for three years (2001–02 to 2003–04) to develop accommodation in the community for offender groups with distinct needs. There are four target groups: women, Aboriginal people, the elderly, and the mentally and physically handicapped.
- **4.94 Recommendation.** Correctional Service should ensure that each region develops an action plan to meet the need for alternative accommodation for women and that the plan is funded appropriately.

Correctional Service's response. The Service agrees that for women offenders alternatives to incarceration, for example, parole, become viable when accommodation such as private home placements and satellite apartment initiatives are available. We are seeking such opportunities in areas where larger facilities are not practical. The geographic dispersal of women coupled with their small numbers has a significant impact on developing sustainable accommodation options.

Women are being returned to institutions for parole violations

- 4.95 According to data provided by Correctional Service, since 1999 there has been an increase in the proportion of offenders returned to the institutions for revocations without reoffence—that is, technical violations of conditions set by the Parole Board (Exhibit 4.4). Of all women offenders' parole revocations in 2001–02, 75 percent were for technical violations (compared with 64 percent among male offenders). This high percentage of technical violations exists despite the fact that women offenders are generally co-operative and receptive to assistance by parole officers. The return of offenders to institutions due to revocations has an impact on both the Service's operational activities and its use of resources.
- 4.96 We surveyed all the community parole officers who had supervised women offenders whose parole was revoked or suspended between June 2001 and June 2002. We found that the most common reason for suspension was the offender's return to substance abuse. The officers we surveyed suggested the following means that are within the Service's control to reintegrate women more successfully:
 - more facilities where women offenders could be housed, supported, and treated on a timely basis during temporary suspension ("halfway back") instead of returning the offender to the institution during this period;
 - more readily available appropriate housing for women;
 - better access to specialized women-only programs, particularly for substance abusers;
 - more continuity between programs offered in the institution and those offered in the community, especially for those with mental health problems; and
 - more assistance with child care.

Exhibit 4.4 Revocations of parole—Women offenders

Type of revocation	Number of revocations and percentage of total						
	199798	199899	1999-2000	2000-01	2001-2002		
Revocation for offence	23 (27%)	27 (30%)	35 (37%)	38 (29%)	31 (24%)		
Revocation without offence	62 (73%)	63 (70%)	60 (63%)	90 (67%)	96 (75%)		
Revocation for outstanding charge	0	0	0	6 (4%)	1 (1%)		
Total	85	90	95	134	128		

Source: Correctional Service Canada Offender Management System

- 4.97 The Service's review of community resources for women in 2001 identified various gaps in, for example, the provision of appropriate programs and services in the community related to substance abuse treatment, employment, and mental health. The review also raised concerns about compensating organizations fairly for their delivery of services to women offenders in the community, noting that these organizations often have viability problems because the number of women they serve is so small.
- 4.98 Our interviews with institutional and community staff indicated that timely access to substance abuse treatment programs for women is difficult, even in some urban areas. Access to mental health services is even more difficult, because many community services will turn away women who have psychiatric problems and criminal records. Parole officers must therefore devote considerable effort to finding hospitals, doctors, and bed space for women offenders who need assistance.
- 4.99 Although some offenders may not be motivated enough to engage in their rehabilitation, Correctional Service needs to provide suitable programs for all women offenders, especially in the most critical part of the transition period—the first three to six months after release. For some, the proper assistance and support at this critical time may be their best chance to gain some control over their lives and avoid returning to the conditions that led to their criminal behaviour. Making enough programs and services available in the community constitutes a preventive approach.
- **4.100** Recommendation. Correctional Service should examine factors that are contributing to the high number of revocations without offence and determine the steps it can take to reduce it.

Correctional Service's response. Every decision to suspend parole is based on our mandate to contribute to public safety. The Service monitors revocations to better understand the issues affecting women's potential for safe reintegration. We will continue to do so.

Partnerships with community resources can be effective

4.101 Creating Choices directed that institutional programs and services be provided in conjunction with community partners. The intent was to connect women offenders to community resources. These connections would help to create the social network the women would need upon their release into the community and beyond the end of their sentence.

4.102 Our field work identified some good examples of how Correctional Service has worked effectively as a partner with agencies and citizens in the community:

- the mentoring program at Edmonton Institution for Women, which links the individual offender with a volunteer citizen;
- Correctional Service's contract with the Marguerite Centre residence in Halifax, which provides a women-centred program of treatment for substance abuse;
- the Community Integration Program at Joliette, provided on contract by the Elizabeth Fry Society to help women prepare for their return to the community; and
- the Newfoundland multi-disciplinary team co-ordinated by Stella Burry Community Services, composed of representatives from Correctional Service, the community-based sector, and the mental health field. The team helps women with special needs adjust to community living.

4.103 Working with community agencies and volunteers to provide continuity of care is recognized as an effective way to help individuals who need a support network. It is also a cost-effective model.

The new community strategy for women offenders is a first step

4.104 As part of the continuum recommended by Creating Choices, Correctional Service set out to develop a community strategy for women offenders. This exercise began in 1995. It was finally completed in November 2002, building upon regional strategies developed in 1998–99. The national strategy outlines the basic principles that govern the supervision of women offenders in the community. It also provides broad national guidelines on all aspects of women's accommodation and the development and delivery of women's programs.

4.105 The current strategy is an important first step in setting needed direction for women offenders' programs and services in the community. But other elements are needed to make this strategy a reality: agreed-upon priorities, measurable objectives, and dedicated funding. As we noted earlier, the Service can identify all annual expenditures for women offenders in its institutions but not in the community. The Service knows what it spends on accommodation for women offenders in the community but can only estimate its spending on programs for them.

- **4.106** In an area as important as programs for women offenders in the community, it is essential that spending on women offenders and the results of that spending be known if the existing community strategy is to be achieved.
- **4.107** Recommendation. Correctional Service Canada should ensure that the necessary controls are in place to identify and dedicate the funds necessary to meet the program and service needs of women offenders in the community.

Correctional Service's response. The Service will develop and implement a more precise method to track and report the information required on women offenders.

Monitoring and reporting performance

- **4.108** Correctional Service regularly monitors reintegration activities for both men and women offenders. In our 1999 Report, Chapter 1, on the reintegration of male offenders, we indicated that the nature and extent of the Service's performance information had improved. Correctional Service continues to improve its ability to acquire and analyze information both on compliance with performance standards and on the results of activities to reintegrate offenders. For example, the Service regularly gathers information on the timeliness of women offenders' correctional plans, on the use of temporary absences, and on the number of parole revocations with and without offence.
- 4.109 Correctional Service uses some of this information to prepare its annual performance report to Parliament. The most recent report, in 2001–02, had a separate section on women offenders that outlined some characteristics of the current population and recent activities undertaken for women.
- **4.110** The Service can improve its performance report section on women by outlining progress achieved against approved plans, priorities, and performance objectives set each year and the results and outcomes of reintegration, including offenders' return to crime both before and after the end of sentence.
- **4.111 Recommendation.** Correctional Service Canada should improve its annual departmental performance report section on women by outlining results against approved plans, priorities, and objectives.

Correctional Service's response. The Service agrees with the recommendation and is currently reviewing the structure of the departmental performance report to highlight outcomes as they relate to the safe and timely reintegration of women offenders.

Conclusion

- **4.112** Correctional Service Canada has made a significant investment in changing the conditions of incarceration for women offenders and strengthening programs and services for them. A great deal of effort and funds have gone into the construction of regional women's facilities across Canada and later their expansion. The growth in the population of women offenders has presented an additional challenge to these building initiatives.
- **4.113** Classifying women offenders is key to properly assessing and placing them in correctional institutions. Correct assessments and appropriate placements are the foundation for rehabilitating offenders. Accordingly, the validity and reliability of the tools used to classify offenders are critical. Correctional Service Canada has not fully tested the reliability of its tools, nor has it completely validated them for use in classifying women offenders.
- 4.114 The Service has also given a substantial amount of attention to the design and adaptation of intervention programs for women. While many of these programs have been implemented, a more comprehensive model for treating women with substance abuse problems has not. The delivery of these programs to women offenders during their incarceration needs to be more timely to afford them better opportunities for release on parole at the earliest possible date.
- 4.115 Correctional Service is not using fully some of its important mechanisms for offender reintegration mandated under the Corrections and Conditional Release Act. The use of tools such as temporary absences and work releases as well as the provisions in sections 81 and 84 specific to Aboriginal women offenders can be much improved.
- 4.116 Finally, women offenders' needs for programs and services in the community are not being met consistently, particularly in such areas as substance abuse programs and mental health services. The recently approved community strategy for women offenders is an essential step in setting needed direction. However, a clear management structure and controls at the community level could help improve services by focusing on activities to reintegrate women, by spending on priorities, and by measuring results.
- 4.117 We have noted some good practices in community partnerships that demonstrate what can be done to support the reintegration of offenders. These partnerships are key if Correctional Service is to meet the various needs of women offenders in the community.
- 4.118 The current community strategy for women must evolve with changing conditions and developments. Correctional Service is embarking on the next phase in offender reintegration, "operating regimes." This is a new approach to help specific groups of offenders achieve their correctional goals with the aid of a specialized team of correctional staff. A number of planned regimes will operate in the community. One of these is a transition regime to help incarcerated offenders prepare better for their release into the community.

Pilot projects are planned for male offenders. We would suggest that Correctional Service consider the benefits of running similar pilot projects for women offenders in the community.

4.119 Creating Choices, the 1990 blueprint for managing federally sentenced women offenders, is now 12 years old. Over this period, the Service has accomplished a great deal in changing how women offenders are incarcerated and rehabilitated. Now would be an appropriate time to update its vision for the management of women offenders, followed by a clear strategy, priorities, achievable objectives, and appropriate funding.

About the Audit

Objective

The objective of this audit was to assess how well Correctional Service is managing the process for reintegrating women offenders. Specifically, we assessed the extent to which

- Correctional Service Canada has established that the risk assessment instruments used to identify an offender's criminogenic factors and level of security throughout the sentence are appropriate for women offenders;
- offenders receive the rehabilitation programs that the Service has determined they require in a timely manner while incarcerated;
- Correctional Service uses mechanisms that assist in offenders' reintegration, such as temporary absences, work releases, employment programs, and legislative provisions for Aboriginal women offenders;
- offenders receive required programs and services while in the community; and
- Correctional Service monitors the effectiveness of its programs and services for women offenders and reports appropriately to Parliament.

Scope

Our examination focussed on the critical components of the reintegration process that contribute to effective rehabilitation of women offenders. In May 2000, the subcommittee of the Justice and Human Rights Committee, having reviewed the *Corrections and Conditional Release Act*, recommended that the Auditor General "carry out an evaluation of the process of reintegration into the community available to women..." This recommendation was endorsed by the Solicitor General.

Criteria

We expected the following:

- Assessment instruments used to identify the offender's criminogenic factors and appropriate level of security throughout the sentence have been validated and are reliable.
- Accurate and timely information on offenders both from outside sources and within Correctional Service is available to complete the offender's correctional plan.
- Good-quality, timely intervention and employment programs are provided by qualified individuals to offenders while incarcerated and while under supervision in the community.
- Other reintegration mechanisms are put to maximum use—temporary absences, work releases, and sections 81 and 84 of the Corrections and Conditional Release Act.
- Complete and timely reports that address criminogenic factors are provided to the National Parole Board for release decisions at the first parole eligibility date and for subsequent reviews.
- Appropriate and consistent levels of parole officer contact, supervision, and assistance (including provision of bed space and other services) are given to offenders while in the community.
- Correctional Service has the reliable and timely performance information it needs on all aspects of its offender reintegration operations in order to monitor the effectiveness of its programs and uses the information to manage for better results and report appropriately to Parliament.

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Appendix Women offenders serving federal sentences—A profile

Population

Offender location	1997-98	1998-99	199900	2000-01	2001-02
Institution ¹	318	355	342	375	358
	(43%)	(43%)	(40%)	(42%)	(42%)
Community ²	377	429	472	474	452
	(51%)	(52%)	(55%)	(53%)	(53%)
Total	695	784	814	849	810

Note: ¹ Institutional figures include federal offenders in federal or provincial institutions and those on temporary absences. Escaped offenders are not included.

Population by institution (December 2001)

Atlant	tic	Queb	ес	Ontario		Prairies		Pacific	
Nova Springhill	32	Joliette Regional Reception Centre	55	Grand Valley Isabel McNeil House	86	Edmonton Okimaw Ohci Healing Lodge Saskatchewan Penitentiary Regional Psychiatric Center	76 21 23	Burnaby Correctional Centre for Women	33

Profile of offences (May 2001)

Type of offence	Number	Percent of total
Drugs ¹	314	36
Murder	134	15
Robbery	114	13
Manslaughter	95	11
Assault	58	7
Theft and possession of stolen property	37	4
Fraud and forgery	22	3
Kidnapping	15	2
Attempted murder	13	1
Break and enter	13	1
Other	63	7
Total	878	100

Note: ¹Includes 38 convictions of conspiracy to commit an indictable offense.

² Community figures do not include offenders deported upon release or provincial offenders under federal supervision. Included are federal offenders unlawfully at large and offenders on parole who have been temporarily detained.

Length of sentence (2000–01)

Length of sentence	Percentage of population
Under 3 years	57
3 – 6 years	32
6 – 10 years	6
Over 10 years	3
Life or indeterminate	3

Releases

(Percentages have been rounded off)

Type of release	1997-98	1998-99	1999-00	2000-01	200102
Day parole	142	176	192	196	165
	(54%)	(58%)	(55%)	(56%)	(48%)
Full parole ¹	34	35	31	22	32
	(13%)	(12%)	(9%)	(6%)	(9%)
Statutory release	82	88	125	127	142
	(31%)	(29%)	(36%)	(36%)	(42%)
Warrant expiry	7	4	2	3	3
	(3%)	(1%)	(1%)	(1%)	(1%)
Total	265	303	350	348	·342

Note: ¹These figures do not include offenders who are moved from day parole to full parole. These are shown below.

	199798	199899	1999-00	2000-01	2001–02
Day parole to full parole	81	111	133	117	87

Source: Correctional Service Canada



Report of the Auditor General of Canada to the House of Commons—April 2003

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2003



Report of the
Auditor General
of Canada
to the House of Commons

APRIL

Chapter 5
Citizenship and Immigration Canada—
Control and Enforcement







2003



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Control and Enforcement









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In 2003, the Office marks the 125th anniversary of the appointment of the first independent Auditor General of Canada. Both sides of the House of Commons cheered when the Government of Alexander Mackenzie proposed the 1878 bill that would "free the auditing of Public Accounts from any interference on the part of the administration." That enlightened legislation laid the groundwork for 125 years of dedicated service to Parliament and to Canadians.

The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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Chapter

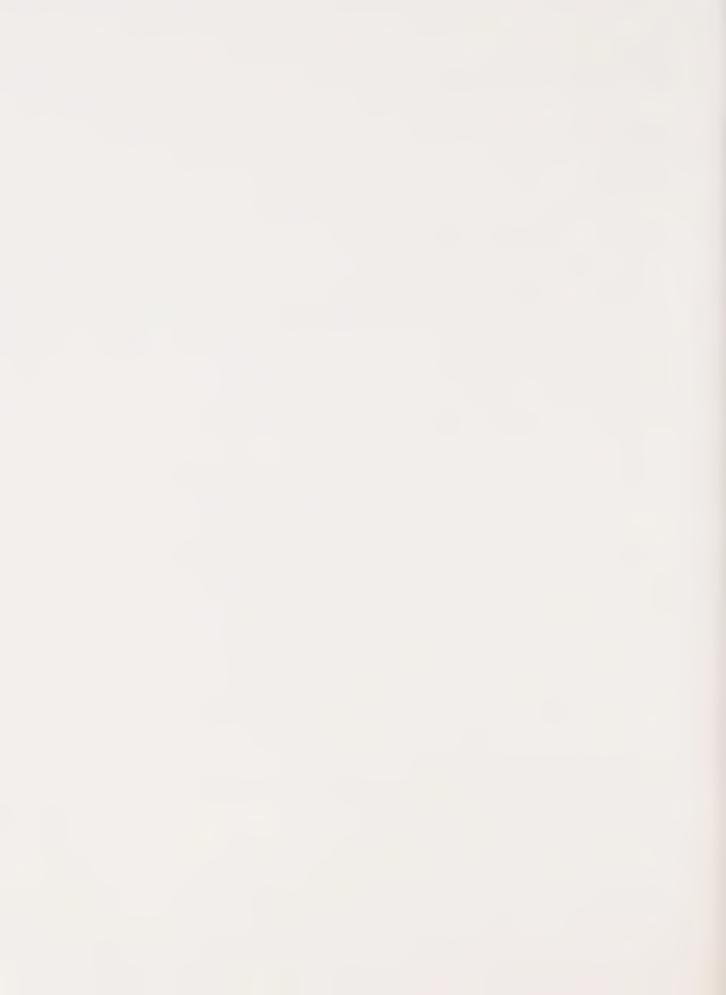
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Citizenship and Immigration Canada Control and Enforcement

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we also draw upon the standards and practices of	f other disciplines.		

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Citizenship and Immigration Canada Control and Enforcement

Main Points

- 5.1 There is a growing but unknown number of people who remain in Canada despite Citizenship and Immigration Canada's having issued a removal order against them. The gap between removal orders issued and confirmed removals has grown by about 36,000 in the past six years. This does not necessarily mean that this number of people remain illegally at large in Canada—some may have left without reporting their departure. However, it does indicate that the Department is falling behind in removing people.
- **5.2** An evaluation of the immigration secondary examination process in 1994 concluded that it was only 50 percent effective at controlling inadmissible travellers. No subsequent evaluation has been done or is planned.
- National Case Management System. The System can be a valuable tool that significantly improves officers' ability to manage enforcement cases that involve investigations, detentions, and removals. However, the Department has not routinely used some key information to manage those activities, or it has found that the information was not readily available. The Department plans to replace existing systems with the new Global Case Management System by 2005, but currently, the project is behind schedule because of delays in contractor selection. The Department needs to continue to improve its current systems in the meantime.
- 5.4 The ability of immigration officers to detain travellers at their discretion is a key control in the enforcement program. We are concerned that lack of available space and tight budgets are affecting detention decisions. Also, the Department's policy on detaining travellers who lack proper identification is not clearly understood by staff who have to apply it. There are also no data available on the number of people detained for this reason.
- 5.5 Overseas, Citizenship and Immigration Canada has established a network of immigration control officers that works with airlines to help identify people attempting to travel to Canada with improper or false documents. This function has worked well and the Department has added to the number of immigration control officers and expanded the role they play.
- 5.6 Although both Citizenship and Immigration Canada and the Canada Customs and Revenue Agency play critical roles in controlling access to Canada, there is no up-to-date memorandum of understanding between the Department and the Agency that would establish, among other things,

performance standards and a means for monitoring performance. Our Office has commented repeatedly on this since 1985.

At ports of entry in Canada, customs officers first deal with travellers on the primary inspection line. The officers decide whether a traveller should be referred to a secondary examination by Citizenship and Immigration Canada. Citizenship and Immigration Canada has no system to evaluate the performance of the primary inspection line. A previous evaluation showed that the primary inspection line was not very effective because it allowed into Canada too many people who should have undergone a secondary examination. Some major technological improvements were subsequently made to the tools available to the primary inspection line, such as direct access to the immigration database. However, the Department has not undertaken a recent evaluation to see whether the effectiveness of the primary inspection line has improved, and none is planned. The Department recently collected information that indicates there is still a need to measure systematically the effectiveness of the primary inspection line at identifying and referring potentially inadmissible travellers.

Background and other observations

Citizenship and Immigration Canada has a difficult task—it must balance the competing demands of facilitation and control. They are both important. The Department must welcome legitimate travellers into the country and prevent the entry of those who are inadmissible. This audit examined control and enforcement activities and did not examine the activities related to facilitation.

The Departments have responded. Citizenship and Immigration Canada and the Canada Customs and Revenue Agency have agreed with our recommendations. Plans and actions they have underway are indicated in their responses in the chapter.

Additional observation. Subsequent to our audit, Citizenship and Immigration Canada and the Canada Customs and Revenue Agency signed an updated memorandum of understanding.

2

Introduction

- **5.9** Citizenship and Immigration Canada was established in 1994. Its mission is to ensure that the movement of people into Canada and their membership in Canadian society contribute to Canada's social and economic interests, while protecting the health, safety, and security of Canadians. The Department organizes its activities according to four strategic outcomes (Exhibit 5.1).
- **5.10** The Department's headquarters are in Ottawa. Citizenship and Immigration Canada has offices in five regions across Canada, and staff in some 90 embassies and consulates overseas.

Coming to Canada

- **5.11** Not all travellers to Canada require a visa. For people living in countries whose residents require a visa to enter Canada, control and enforcement activities begin overseas. People who want to enter Canada must go through the visa application process and further checks for identity before arriving in Canada.
- 5.12 Once at a port of entry in Canada, travellers are initially interviewed by Canada Customs and Revenue Agency officers at a primary inspection line. These officers refer travellers to immigration officers for a secondary examination, if required. At smaller land border sites that do not have any immigration officers on site, customs officers conduct primary inspection line interviews and may refer travellers to other ports of entry or perform secondary examinations with assistance from immigration officers at other ports (Exhibit 5.2).

Exhibit 5.1 Planned spending — and how many people it takes to do the job

	Planned spending (\$millions)	Full-time equivalents	Planned spending (\$millions)	Full-time equivalents	Planned spending (\$millions)	Full-time equivalents
	2002	2-03	2003	3-04	2004	1-05
Strategic outcome	J			1	_,	. —
Maximizing the benefits of international migration	\$146.9	1,638	\$145.5	1,622	\$141.0	1,625
Maintaining Canada's humanitarian tradition	\$111.2	195	\$100.0	192	\$100.1	203
Promoting the integration of newcomers	\$334.6	556	\$332.4	556	\$330.2	555
Managing access to Canada	\$366.8	2,796	\$340.1	2,708	\$313.5	2,548
Total	\$959.5	5,185	\$918.0	5,078	\$884.8	4,931

Source: Citizenship and Immigration Canada

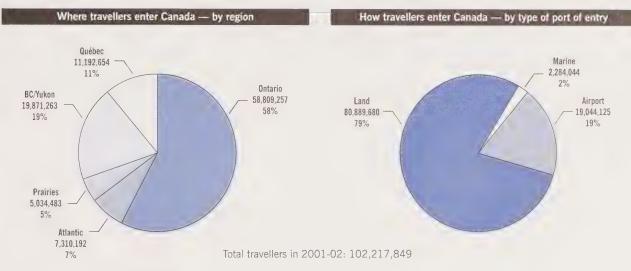
Exhibit 5.2 Ports of entry with on-site immigration staff



Source: Citizenship and Immigration Canada

5.13 Most people enter Canada through Ontario. Almost 80 percent of people entering Canada in 2001–02 did so by land (Exhibit 5.3).





Source: Canada Customs and Revenue Agency

The Immigration and Refugee Protection Act

5.14 In 2001, Parliament passed the *Immigration and Refugee Protection Act*. This was the first major overhaul of the *Immigration Act* in some 25 years. The preparation and passage of the new legislation was a major preoccupation of senior managers in the Department for the past few years. Following extensive consultations with Canadians, the Department prepared a document in 1999 that served as the basis for discussion with the provinces, federal partners, and Canadians. Parliament passed the *Immigration and Refugee Protection Act* in the fall of 2001, with most provisions coming into effect on 28 June 2002.

5.15 Once the Act was passed, Citizenship and Immigration Canada drafted new regulations and made the necessary changes to operating policies, guidelines, and support systems before the June 2002 deadline. To prepare for the Act, the Department conducted extensive training of its own officers and of customs officers at the primary inspection lines at ports of entry.

Conflicting demands

5.16 The Department has a difficult task, balancing the competing demands of facilitation and control. They are both important. The Department must welcome legitimate travellers into the country and prevent the entry of those who are inadmissible. It is a difficult balance.

5.17 The Canadian Charter of Rights and Freedoms. In 1985, the Supreme Court of Canada decided that the guarantees set out in section 7 of the Charter (namely that everyone is entitled to life, liberty, and security) apply to everyone in Canada, not only citizens, permanent residents, or other persons lawfully in Canada. Once individuals are in Canada, including at ports of entry, section 7 of the Charter applies regardless of the legality of the method of entry. Further, the Supreme Court decided that the principles of fundamental justice required an oral hearing for claims of refugee status even where there is a serious issue of credibility. The Charter gives additional rights to everyone in Canada, such as the right not to be detained without just cause, the right upon arrest or detention to be informed promptly of the reason, and the right to retain and instruct counsel without delay. These rights have a far-reaching impact on immigration control and enforcement activities. When conducting examinations at ports of entry, officers must ensure that they afford individuals all their Charter rights.

Additional funding for security

- 5.18 The events of 11 September 2001 continue to have a major impact on departmental planning and operations. In December 2001, the government tabled a budget that provided public security and anti-terrorism funding of \$7.7 billion for 2001–02 to 2006–07. According to the 2001 federal Budget, several federal departments and other organizations will receive funding to "build personal and economic security by keeping Canadians safe, terrorists out and our borders open and efficient."
- 5.19 Citizenship and Immigration Canada's planned share of this additional funding for 2001-02 to 2006–07 is \$639.4 million. The Department's planned major funding commitments are for improving screening (\$196.8 million), building intelligence capacity (\$131.2 million), managing enforcement activities within Canada (\$154.0 million), and replacing the IMM 1000 form with the new permanent resident card that has modern security features (\$157.4 million).

5.20 Our Office intends to report in 2004 on the additional public security and anti-terrorism funding and how it was spent.

Secure and smart border plan

- 5.21 Citizenship and Immigration Canada is playing an important role in the government's joint control efforts with the United States. In response to the events of 11 September 2001, the Canadian and U.S. governments issued the *Joint Statement on Cooperation and Regional Migration Issues* and the 30-point *Action Plan for Creating a Secure and Smart Border*. Citizenship and Immigration Canada has the lead for Canada on 10 of the points:
 - biometric identifiers—developing common standards for the biometrics the two countries use and compatible technology to read the biometrics;
 - permanent resident cards—replacing the Canadian IMM 1000 form;
 - refugee/asylum processing—screening for security or criminal risks and sharing information;

IMM 1000 form—The record of landing document that overseas immigration officers would give to immigrants before they travelled to Canada.

Biometric identifiers—Physical features that are unique to an individual—fingerprints and retina scans, for instance—and that are used to verify an individual's identity.

- managing refugee/asylum claims—negotiating an agreement to manage the flow at land borders of individuals seeking asylum;
- visa policy co-ordination—consulting between Canada and the U.S. when reviewing a third country to decide if visas should be required or not;
- joint passenger analysis units—locating customs and immigration officers of both countries at selected major airports together to cooperate in identifying high-risk travellers;
- compatible immigration databases—automating existing exchanges of lookout information and developing parallel immigration databases for regular information exchange;
- immigration officers overseas—deploying new immigration officers from both countries overseas to deal with document fraud, to be a link between airlines and local authorities, and to work with other countries to interrupt the flow of illegal migrants;
- international co-operation—providing technical assistance to source and transit developing countries that are either a source of illegal travellers or used by them while travelling; and
- removal of deportees—addressing legal and operating challenges to removal.

In December 2002 the governments issued a joint one-year status report on the Plan.

5.22 Among its significant achievements, the Department has produced the new permanent resident card to replace the IMM 1000 form. This card has a number of security features that the IMM 1000 form did not have. Citizenship and Immigration Canada also led the negotiation of the Safe Third Country Agreement with the U.S. Under the Agreement, people claiming refugee status at a land port of entry will, with some exceptions, be ineligible for a review of their claim by the Immigration and Refugee Board. The Department expects the agreement to be in effect by the spring of 2003.

Focus of the audit

- 5.23 The objective of the audit was to determine whether Citizenship and Immigration Canada is managing control and enforcement activities efficiently and effectively in keeping with Canadian immigration policy.
- 5.24 Our audit examined immigration control and enforcement activities, a component of one of the Department's strategic outcomes, Managing Access to Canada. It did not examine the Department's role in the arrival of newcomers and their integration into Canadian society. Further details on the audit are found at the end of the Chapter in About the Audit.

Lookout information—information that alerts officers to question travellers more thoroughly.

Observations and Recommendations

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5.25 In November 2001 the Department developed a common security strategy for the Canada–U.S. border. This strategy was used in Canada–U.S. discussions on how to deal with our shared borders. The strategy was expanded to become the Multiple Borders strategy that defines a border for immigration purposes as any point at which the identity of a traveller can be verified. Its objectives are to keep the Canada-U.S. border open to legitimate travellers and goods, and to identify and intercept illegal and undesirable travellers as far away from North America as possible. The strategy proposes to broaden border control away from the shared land border with the U.S. to the many, more effective, "borders" that a traveller will pass through before reaching North America (Exhibit 5.4). The Department has developed a framework to guide how it assesses risk. It has prepared an initial risk assessment for key areas abroad and is field-testing a risk framework for addressing these risks. The Department has also developed a risk management framework with the U.S. Immigration and Naturalization Service.

Visa screening Airline check-in Embarkation Transit Final embarkation point International airports seanorts Canada-U.S. border

Exhibit 5.4 Points at which travellers can be screened for entry into Canada

Source: Citizenship and Immigration Canada

Temporary resident visas. At posts abroad, staff issue immigrant visas and temporary resident visas. (We will include issues related to immigrant visas in our May 2003 follow-up chapter on the economic component of the Canadian Immigration Program.) Temporary resident visas have three categories: visitors, students, and temporary workers. In 2002, the Department issued 788,000 such visas. It considers visas to be one of the most effective means to control access to Canada. With a temporary resident visa, a person may board an aircraft or ship. However, the final decision on admissibility into Canada is made at the port of entry. During 2001 and 2002, to ensure better control over travellers entering Canada on a temporary basis, the Department imposed visa requirements on visitors from 10 countries that were previously visa-exempt. This gave the Department the opportunity to

screen travellers from those countries before they were allowed to enter Canada. This was a factor in the decline for example, of refugee claims by Hungarians from 4,162 in 2001 to 711 in 2002, and by Zimbabweans from 2,743 in 2001 to 137 in 2002.

- 5.27 Processing temporary resident visas at posts abroad takes precedence over the processing of immigrant visas. At the posts we visited, Citizenship and Immigration Canada worked to grant qualified applicants their temporary resident visas as quickly as possible—usually the same day. Since 11 September 2001 there has been a growing awareness that the risks in granting temporary resident visas must be carefully weighed and managed.
- 5.28 We recognize that the Department cannot impose the same level of screening on potential visitors, students, and temporary workers as it does on people seeking to immigrate to Canada and become permanent residents. Our audit looked at whether the Department was following its own procedures for screening applicants.
- 5.29 Before immigration officers issue temporary resident visas to applicants from certain countries, the officers must request security checks by the Canadian Security Intelligence Service (CSIS). This also applies when officers have security concerns or when applicants meet specific security profiles. CSIS has 10 days to advise the post to hold the application or Citizenship and Immigration Canada may issue the visa. At its discretion, the post also advises CSIS about applications from nationals of an additional list of countries but does not need to wait for CSIS to perform a check before issuing the visa. Additional intelligence information is also gathered and used in considering applications. For example, in the area of war crimes, posts require applicants to disclose military service and this information is compared with intelligence information. In the posts we visited, we found that these procedures were being followed.

Stopping inadmissible travellers abroad

- 5.30 The Department recognizes that it is easier and more cost-effective to stop travellers who are inadmissible to Canada from entering the country before they board an aircraft or ship than on arrival at ports of entry. It is more difficult and expensive to remove them after entry. The officers have traditionally worked with airlines at foreign airports to help them identify people attempting to travel to Canada with improper or false travel documents.
- 5.31 The Department used some of its additional public security funding to increase the number of full-time immigration control officers posted abroad from 44 to 48, and plans to add another 8 full-time officers to support airline training, anti-fraud work, and intelligence gathering at several posts. In 2002, the Department also expanded the role of immigration control officers to include the gathering and use of intelligence and the identification of fraudulent visa applications—activities that officers at some posts had already begun. The Department now refers to those people as migration integrity

- officers. As at April 2002, the Department estimates that, in total, 86 fulltime equivalent staff were performing this expanded role.
- 5.32 Citizenship and Immigration Canada conducted an internal audit of immigration control officers' activities in 2001 and the main observation focussed on the time that the officers were spending on activities not related to their job, such as processing visa applications. At most of the posts we visited, the internal audit issues had been addressed.
- These officers are generally effective in identifying passengers attempting to travel with improper documents. Representatives from other countries told us that they consider the Canadian immigration control officer position to be a model. Officers intercepted 6,271 people with improper documents trying to board flights abroad in 2000, 7,880 in 2001, and 5,601 in 2002.

Co-operation by airline carriers is key

- The Immigration and Refugee Protection Act has several provisions that make carriers responsible for the removal costs of passengers arriving at Canadian airports with improper documents. However, due to the layout of large air terminals, immigration staff have not been able to consistently identify the airline on which a passenger arrived. Many people claiming refugee status destroy their documents or return them to a smuggler before their first contact with a Canadian official. Recent initiatives are aimed at solving this problem (see paragraph 5.64).
- Under the Act, the Department charges a carrier an administration fee for each traveller arriving with improper documents. The Department has signed agreements with most airlines flying regular routes into Canada. It has generally not applied the same system to marine and rail carriers, although it does have agreements with six marine carriers. According to the agreements, carriers with good performance records in deterring these travellers from arriving in Canada pay reduced administration fees. Carriers without signed agreements pay \$3,200 for each traveller with improper documents. For carriers with signed agreements, that fee drops to between \$0 and \$2,400, depending on that carrier's history of arriving in Canada with travellers with improper documents on board. Airlines, in turn, agree that immigration control officers will train their staff and assist them at foreign airports in identifying passengers with improper travel documents. Immigration control officers we interviewed reported good co-operation from most airlines with agreements. Citizenship and Immigration Canada reports a high rate of collection for the administration fees assessed.
- 5.36 The Department does not have a system in place, however, to ensure that it consistently charges removal costs to airlines. Citizenship and Immigration Canada officials also told us that its officers do not always review an individual's file to determine if they can charge removal costs to an airline. The Department did not know the extent of the problem or the amounts it failed to charge airlines as a result.

10

5.37 Recommendation. Citizenship and Immigration Canada should evaluate whether current practices for charging and recovering costs are the most appropriate or whether other approaches should be considered.

Department's response. The Department agrees. A more detailed analysis is needed to confirm that officers are properly reviewing files to determine whether an airline liability exists.

Greater attention to intelligence and related activities

- 5.38 As part of the government's response to the 11 September 2001 attacks, the Department created the Intelligence Branch in March 2002. The Intelligence Branch defines its role as providing information and expertise on intelligence management, security, terrorism, organized crime, modern war crimes, irregular migration, and measures to prevent the use of false documents. The Branch brought together existing intelligence and case management resources at headquarters and provided a central point for sharing information with partners in the intelligence community. Citizenship and Immigration Canada has also invested in intelligence and related activities that concentrate on three main areas: increasing activities, improving screening for travellers and staff, and managing security within Canada. The Intelligence Branch maintains links to police and other government agencies.
- **5.39** The Branch now needs to provide increased support and direction to the regions. In the regions and at ports of entry we found that intelligence officers define their own scope of activities. The Department has provided limited guidance to those officers working at the regional and local levels.
- 5.40 At most ports of entry we visited, Citizenship and Immigration Canada does not provide full immigration intelligence to Canada Customs and Revenue Agency officers on the primary inspection line—who make the initial decision whether to admit a traveller. We found the following:
 - Primary inspection line officers do not routinely learn of immigration trends or other general immigration intelligence.
 - At land borders, Immigration's lookout system cannot automatically connect with that of the Canada Customs and Revenue Agency.
 Immigration's intelligence is based on personal identification, but the Agency's system at land borders is based on licence plates.

Control and enforcement at ports of entry

5.41 Ports of entry have two separate control points. Customs officers on the primary inspection line conduct the initial interview of travellers. These officers must try to control the entry into Canada of problem individuals while allowing other travellers to move easily. They may refer travellers to a secondary examination by Immigration for further interviews. Between 1998 and 2002, primary inspection line officers processed over 100 million arrivals each year. During that time they referred about two million travellers per year to Immigration for secondary examination.

The Department does not know if customs officers are referring the right people to Immigration

- 5.42 A 1992 evaluation concluded that the level of control exercised by the primary inspection line was low. The evaluation, which included a range of airports and land ports of entry, found that during the first study period in August 1991, primary inspection lines did not refer to Immigration 69 percent of potentially inadmissible individuals who should have been referred for secondary examination. In the second study period, November 1991, the rate had increased to 80 percent. That evaluation also found that primary inspection lines at land borders were less effective than those at airports. The evaluation's key recommendations included the following:
 - The Department should consistently monitor primary inspection line performance on immigration matters.
 - The Department should develop performance standards and performance monitoring indicators for the primary inspection lines.

Citizenship and Immigration Canada and the Canada Customs and Revenue Agency accepted the findings of the evaluation. We found a draft action plan for the 1992 evaluation on file but no indication of further follow-up by Immigration.

- 5.43 The Department has not established any targets or evaluation mechanisms for primary inspection line performance. Without these, the Department has no assurance that the primary inspection line process is referring the right people to Immigration.
- 5.44 In examining data on primary inspection line referrals, we inquired about recent events that temporarily changed the referral pattern in the fall of 2002. In some cases, primary inspection line staff referred all travellers or a selected group for a certain period. Although the Department did not systematically evaluate the increased referrals, information in reports collected daily from each port suggests that the much higher referral rates included a large portion of legitimate referrals. This indicates that there is still a need to measure systematically the effectiveness of the primary inspection line at identifying and referring potentially inadmissible travellers.
- 5.45 We also learned that contrary to Canada Customs and Revenue Agency policy, the length of the secondary immigration examination line can influence a primary inspection line officer's decision on whether to refer. When the secondary examination appears to have a backlog, primary inspection line officers may make fewer referrals.
- 5.46 Except at one air terminal and one land port of entry, we found no systematic feedback to customs officers at the sites we visited. Citizenship and Immigration Canada's ports of entry enforcement manual states that "immigration officers should, whenever possible, provide feedback on the results of Canada Customs and Revenue Agency referrals." Immigration officers can use this feedback to give guidance leading to a better quality of referrals from the primary inspection line.

- 5.47 We found some improvements made since the 1992 evaluation. For example, after 1992, primary inspection line officers at larger ports of entry began to have some access to information in the immigration enforcement database. In 2001–02, the Canada Customs and Revenue Agency implemented a new system that gives primary inspection line officers at airports access into the immigration enforcement database. Customs officers now also use the system at some land ports of entry for processing travellers arriving by bus.
- **5.48 Recommendation.** Citizenship and Immigration Canada and the Canada Customs and Revenue Agency should put in place a mechanism to regularly measure and evaluate the performance of the primary inspection line.

Department's response: Both the Department and the Agency agree with the recommendation. We are currently negotiating a renewed memorandum of understanding, which will include a mechanism to measure and evaluate the performance of the primary inspection line on a regular basis.

The memorandum of understanding needs to be updated

- 5.49 Despite many audit observations over 15 years, Citizenship and Immigration Canada and the Canada Customs and Revenue Agency have not updated their 1983 memorandum of understanding. The existing memorandum governs the operations of the primary inspection line by the Canada Customs and Revenue Agency on behalf of Immigration, but operating practices have changed since 1983. Several past audits found flaws in the agreement (Exhibit 5.5). Despite considerable effort and consultation between the two organizations, a revised memorandum from 2001 remains unsigned. Given the pivotal role of the primary inspection line in Immigration's control function, we consider the lack of results on this issue a serious matter.
- 5.50 An updated memorandum of understanding that sets out expectations and accountabilities is essential so that the primary inspection line operates effectively for immigration purposes. It could also include a process for measuring the performance of the primary inspection line. The Department gives the absence of a current memorandum of understanding as a reason for not conducting another evaluation of the primary inspection line and its immigration responsibilities. An updated memorandum of understanding would create an improved framework for addressing operational issues. Without an updated memorandum, procedures remain inconsistent among ports of entry and officers cannot work as effectively as they might (Exhibit 5.6).
- **5.51** Recommendation. Citizenship and Immigration Canada and the Canada Customs and Revenue Agency should update their memorandum of understanding to
 - clearly describe the border management roles and responsibilities of the Department and the Agency,

- reflect current operating environments and practices, and
- provide for setting performance standards and measuring performance.

Department's response. Both the Department and the Agency agree with the recommendation. We are currently negotiating a renewed memorandum of understanding that will

- contain precise information on the chief roles and responsibilities of the Department and the Agency,
- reflect current operating environments and describe how both agencies will work together to ensure that operating procedures are in place and adhered to, and
- set out the basis for a joint approach to continuous improvement based on data and information collection which will enable both agencies to determine the effectiveness of the examination function administered at ports of entry and to make any changes necessary to ensure performance standards are effective and are being monitored on an ongoing basis.

We are placing a high priority on the finalization and sign-off of a renewed memorandum.

Additional observation. Subsequent to our audit, Citizenship and Immigration Canada and the Canada Customs and Revenue Agency signed an updated memorandum of understanding.

Exhibit 5.5 Our previous findings on the need for an updated agreement between Citizenship and Immigration Canada and the Canada Customs and Revenue Agency

Report	Finding
1982, Chapter 7 – Immigration Program	There is no formal agreement between Customs and Immigration to clearly establish roles, responsibilities and accountabilities regarding the primary inspection line activities.
1985, Chapter 14 – Follow-up and Status Report on Recommendations in 1983 and 1982 Chapters— Immigration Program, 1982, Chapter 7	 The formal agreement between Customs and Immigration was concluded in 1983; however, the agreement does not include effectiveness indicators or performance standards.
1990, Chapter 12 – Management of the Immigration Program	The memorandum of understanding (MOU) is incomplete. It does not include:
	 A clear description of the mandates, responsibilities and accountabilities of each party.
	a means of monitoring adherence to standards set in the MOU
1992, Chapter 3 – Follow-up of Recommendations in Previous Reports— Management of the Immigration Program, 1990, Chapter 12	Little change has been made to the interdepartmental agreement that existed in 1990
April 2000, Chapter 5 – Canada Customs and Revenue Agency—Travellers to Canada: Managing the Risks at Ports	"Periodically, Customs' relationship with Immigration has been strained at some ports of entry"
of Entry	The update to the 1983 MOU is taking much too long.

Exhibit 5.6 Problems persist due to the lack of an updated memorandum of understanding

Information on travellers who are refused entry into Canada is not always entered in the Immigration database

If a customs officer refuses to admit a traveller at the port of entry, that traveller may be allowed to withdraw the request to enter Canada. In these instances, the customs officer completes an allowed to leave Canada form at the port to record the history of refusal to enter Canada. The refusal must be recorded in Immigration's database, the Field Operations Support System, because some travellers who are refused entry at a land crossing attempt again to enter Canada using a different port. Timely input into the immigration database of the past refusal history of a traveller is, therefore, essential to preventing the entry of inadmissible persons at land ports. We reviewed this process at the ports we visited that did not have immigration officers on site, and tested a small sample of these reports to check if the information on the inadmissibility of the traveller was communicated to the port providing support and quickly entered into the Field Operations Support System. More than half (4 of 7) of an initial sample of these documents were not entered into the immigration database. Further investigation revealed that at some ports, procedures to ensure that this information gets recorded into the database were inconsistent and at times unclear. We brought this problem to the attention of Citizenship and Immigration Canada and Canada Customs and Revenue Agency in September 2002. Management said they would address the issue. In December 2002, we retested and noted that the problem still existed. In January 2003, Citizenship and Immigration Canada finalized instructions to ensure that the information is entered in the Field Operations Support System and sent them to the Canada Customs and Revenue Agency, which distributed them to its customs offices.

Information on why travellers are referred is not shared

At most air terminals we visited, the immigration referral reason is not indicated on the referral slip. Thus, the immigration officer does not know why a customs officer has referred a traveller and any valuable information obtained by the customs officer's questioning is likely lost.

The Department does not know how effectively its secondary examination process controls access to Canada

- 5.52 In 1994, the Department evaluated its secondary examination activities at ports of entry. That evaluation found the examinations were only 50 percent effective at controlling the entry of inadmissible travellers. Immigration officers rated themselves least effective at catching individuals who are inadmissible for reasons of crimes, danger to public safety, security, espionage, and war crimes. Most officers who participated said they were particularly ineffective at detecting false travel documents. Management responded that it would develop national standards and a comprehensive monitoring system for the secondary examination process at ports of entry. This has not been done. The Department has not conducted any evaluation of the secondary examination process since 1994, and none is planned.
- 5.53 We found inadequate monitoring of secondary immigration examinations and inadequate measurement of performance to ensure that quality and consistency of admissibility decisions by immigration officers regularly meet expected standards. There were no formal quality assurance

systems in place that would, for example, provide national standards for documenting information and provide for review of decisions on a sample basis for consistency with the Department's operating policies.

5.54 Recommendation. Citizenship and Immigration Canada should regularly examine the performance of the secondary examination process.

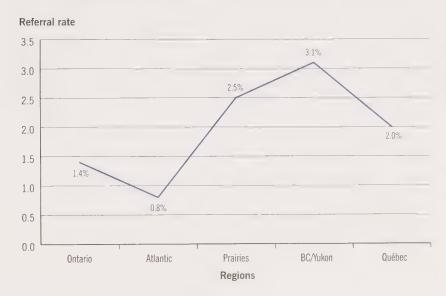
Department's response. The Department agrees. We will be exploring ways to put in place a review mechanism of the secondary examination process. The goal will be to evaluate both primary inspection lines and secondary examinations at the same time through a combined review process and to look at mechanisms for providing better feedback to Customs on the results of referrals.

Citizenship and Immigration Canada does not use risk assessment to focus its work at ports of entry

- 5.55 The Department has limited resources and a broad mandate. It needs to allocate its resources by understanding what risks exist and how significant they are and then determining the best way to contain them. The Department does no comprehensive risk assessment to identify and reduce risks to the immigration program at ports of entry.
- 5.56 Immigration officers are present at only 44 of the 272 staffed ports of entry and most of those 44 ports are not staffed 24 hours a day by immigration officers. Ports of entry where no immigration officer is present handle about 15 percent of the total traffic. No framework exists to evaluate which ports should have immigration officers on site.
- 5.57 In 1996, the Canada Customs and Revenue Agency began a national assessment of risks at ports of entry, based on factors such as location and type of traffic, customs enforcement data, and knowledge of the port and its potential for customs violations. It rated each port using the factors and ranked them by level of risk. The Agency then developed risk profiles for 229 ports of entry and used them to help determine the number of travellers that customs officers should refer to a customs secondary examination. Citizenship and Immigration Canada does not use a comparable risk assessment tool.
- 5.58 We noticed a significant difference between referral rates at land ports where immigration officers are present and those ports where there is no secondary examination available on site—in which case "referral" means that customs officers either send the traveller to a port that has an immigration officer or they perform the secondary examination with assistance from an immigration officer. In 2001–02 the referral rate at ports with immigration officers was 2.56 percent and was 1.14 percent at ports without immigration officers. We also noted significant differences among the regions in the average referral rates at land border sites (Exhibit 5.7).
- 5.59 Additionally, significant differences in referral rates exist between some land border sites that are close to each other. For example, during 2001–02 along one section of the border in Québec, the port of entry on Route 223

had a referral rate more than five times the rate of the port on Route 221 (4.9 percent compared with 0.9 percent). The difference between the referral rates at these two ports of entry was similar in past years. Although local Immigration management was aware of the difference, it had done little work to investigate the cause. Citizenship and Immigration Canada does not analyze referral rates at a national or regional level and consequently is not able to determine if these differences are justified.

Exhibit 5.7 Average referral rates to Immigration's secondary examination by Customs' primary inspection at land border sites — 2001-02



Source: Canada Customs and Revenue Agency

Screening at marine ports is limited and inconsistent when compared with other ports of entry

Unlike land and air ports of entry, travellers and crew arriving at 5.60 marine ports of entry do not always pass through a primary inspection line. People arriving off cruise ships regularly do. Freighters and cargo ships are targeted on a random basis by both Citizenship and Immigration Canada and the Canada Customs and Revenue Agency. Immigration has limited capacity to screen these ships. In Vancouver and Halifax, immigration officers receive crew manifests before the ships dock but perform limited advance screening using this information. This is mostly due to a lack of time and resources dedicated to this work. If no screening is done at the port of entry, inadmissible persons may not be identified. Procedures to control access to Canada at marine ports vary considerably. Most work is in response to such incidents as the discovery of stowaways. In January 2003, the government announced new funding for marine security projects that would allow increased surveillance and tracking of marine traffic and screening of passengers and crew aboard vessels.

Recommendation. Citizenship and Immigration Canada should assess the level and type of risk at ports of entry to help set targets for the number of referrals its officers receive from the primary inspection line.

Department's response. The Department agrees. We hope to establish national standards for evaluating risks at ports of entry that will allow for appropriate risk analyses. As we are only present at 44 of 272 ports, the Department will work with the Canada Customs and Revenue Agency to incorporate an immigration risk assessment into their annual port of entry risk report. This year the Agency is already including an immigration component to its risk review.

Some gaps in training of immigration officers at ports of entry remain

- Training is a key element in providing immigration staff with the knowledge and skills to properly control access to Canada at ports of entry. Several standard courses help train officers who process travellers at ports of entry. Citizenship and Immigration Canada has developed a series of core courses to train immigration officers who conduct secondary examinations.
- We noted some gaps in the training of immigration officers at ports of entry:
 - Immigration officers said they need more in-depth and more frequent training in identifying false documents.
 - There is no regular refresher training course available to immigration officers after they complete the core training courses the Department offers.

Recent initiatives target problem flights and passengers

- 5.64 Disembarkation and response teams are an enforcement initiative by Immigration at major airports. The teams help to identify travellers with improper documents and link them to the responsible air carriers. Immigration officers check the travel documents of incoming travellers at the arrival gate or on board the aircraft, before the travellers arrive at the primary inspection line. The teams also conduct roving checks to identify other illegal activities by travellers such as destroying documents or returning false documents to an escort or a smuggler.
- The teams help target and screen high-risk travellers (notably, smugglers and improperly documented arrivals) before they reach the primary inspection line. They also help gather intelligence and improve the quality of referrals for secondary examination by identifying people who require a more detailed examination.
- Where the teams are deployed, they have recorded a general increase in intercepting inadmissible travellers and linking them to carriers. The result is better intelligence on the movement of illegal migrants, as well as more passport seizures and penalties. Due to the use of these teams, the number of undocumented arrivals who could not be linked to an airline has decreased since 1998 to the current level of about 15 percent.

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5.67 The Advance Passenger Information/Passenger Name Record project is a joint initiative of Citizenship and Immigration Canada and the Canada Customs and Revenue Agency. It allows the two organizations to receive and review information on travellers before they arrive in Canada. It increases Canada's ability to detect and stop the illegal movement of people into Canada by screening for high-risk or suspect travellers before they get here. The Advance Passenger Information data include name, date of birth, gender, passport number, and nationality of the traveller. Passenger Name Record data consist of more detailed information such as itinerary, method of payment and travel booking dates. As of 7 October 2002, Immigration began receiving Advance Passenger Information data for international flights to Canada and checking them against the Immigration database. The Passenger Name Record program will begin in early 2003.

Minister's permits—exceptions to the rule

- 5.68 Temporary resident permits, previously known as Minister's permits, are issued by the Minister or delegated officers to people who are inadmissible to Canada for technical, medical, or criminal reasons. There is a provision in the *Immigration and Refugee Protection Act* (which was also in the previous *Immigration Act*) that permits the Department to allow a non-admissible individual into Canada when there are compelling reasons. The Department issued 3,989 Minister's permits in 2000 and 3,994 in 2001.
- 5.69 We examined a random sample of permits based on the Department's Annual Report to Parliament on Minister's Permits issued in 2001. This report shows the number of permits issued, classified by the section of the former *Immigration Act* under which the person was inadmissible. Our selection included files from overseas posts and from Canada. The sample included a higher percentage of permits involving reasons for inadmissibility that we considered to be more serious.
- 5.70 In our review we looked for a rationale to support the decision to issue the permit. We looked at the accuracy of the classification in the Annual Report by sections of the Act showing why entry was denied. We found that in nearly all cases—97 percent—the files clearly gave the reason for inadmissibility. However, in 20 percent of the cases we found that the reason for inadmissibility was incorrectly classified.

The grounds for issuing permits need to be better documented

- 5.71 We reviewed the information supporting the decision to issue the permit. We found that the files supported the decision in 60 percent of the cases. In cases involving persons denied entry due to serious crimes or security issues, we found that the files supported the decision 51 percent of the time.
- 5.72 These permits are an exception allowed by the Act. Departmental manuals state that officers "must use exceptional care before an applicant receives one [a Minister's permit]" and the grounds for issuing a permit should be recorded in the case summary. Based on our review, the Department is not consistently documenting the reasons for issuing the permits.

Enforcement activities in Canada

5.73 The goal of the Department's enforcement activities is to manage access to Canada in order to preserve the integrity of immigration and refugee programs and protect the health and safety of Canadians. Enforcement officers in the regions investigate, detain, and remove people who are in Canada illegally.

Detaining individuals who pose a potential risk

- 5.74 At ports of entry and at inland immigration offices, immigration officers can detain individuals who have contravened the *Immigration and Refugee Protection Act*. Officers may detain an individual because
 - the individual is a danger to the public,
 - the individual is unlikely to appear for a hearing or removal, or
 - the officer cannot establish the individual's identity.
- 5.75 Depending on the risk the individual poses and the facilities available in the region, detainees stay in either Immigration, provincial, or territorial facilities (Exhibit 5.8). The Department has detention facilities in Vancouver, Toronto, and Montréal and has access to 255 provincial and other facilities.

Exhibit 5.8 People in detention

Fiscal year	Number of detainees	Number of detention days
In Citizenship and Immigr	ration Canada facilities	
1999-00	4,509	43,329
2000-01	4,643	47,880
2001-02	5,720	51,261
In provincial and other fac	cilities	
1999-00	3,712	88,094
2000-01	4,143	88,500
2001-02	3,822	89,941

Source: Citizenship and Immigration Canada

- 5.76 Detainees must have a detention review in front of the Immigration and Refugee Board within 48 hours, within 7 days after that, and within every 30 days after that if they are not released in the meantime.
- 5.77 Citizenship and Immigration Canada has done two recent studies on detentions. In 2000, the Department reviewed its detention practices in each region. The review highlighted three major concerns:
 - detention space in Vancouver and Toronto;
 - the mixing of immigration detainees with the criminal population, particularly in Vancouver; and

- the expense and difficulty of detaining individuals due to delays in obtaining travel documents.
- **5.78** In 2002, the study focussed on detention strategy. It recommended a three-part strategy: tackle unexecuted removal orders more vigorously; strongly pursue alternatives to detention; and give priority to understanding detainees' cases better and tracking them through all stages of the detention process.

Applying the policy that deals with lack of proper identification

- **5.79** Increasingly, foreign nationals arrive in Canada without proper documents. The majority are refugee claimants. Some do not have adequate documentation to establish their identity. The Department detains some of them, but could not say how many.
- 5.80 In October 2001, the Department put in place at ports of entry a much more thorough interview process for refugee claimants to determine identity and permit security and criminal checks. The Canadian Security Intelligence Service (CSIS) is available to interview claimants, if necessary.
- Officers at ports of entry and at inland offices told us that they understand their responsibilities under the Act but are unclear about how strictly the Department wants to apply the legislation to detentions for reasons of identity. For example, Vancouver is implementing the Department's policy to detain people whose identity is unclear. Officers detain people without identity documents until the subsequent workload of detention reviews becomes overwhelming. They then send fewer people to detention. This leaves ports of entry officers and enforcement officers unsure of department policy. Ontario Region is also detaining people without identity documents. The Region added beds at its facility—initially until March 2003—to detain more people without identity documents. The number of beds available dictates the number of people detained. A recent assessment found that 60 percent of people detained for purposes of identification subsequently provide satisfactory documents and are released. The Department continues to investigate the identities of those still in detention.
- 5.82 The 2000 study recommended that the Department develop a national strategy for the detention of refugee claimants without proper documents. The 2002 study recommended a strategy that included a 12 month monitoring of detentions for reasons of identity. At the time of our audit, Citizenship and Immigration Canada had not yet developed the strategy.
- **5.83** Recommendation. The Department should monitor the application of its policy on detaining people for lack of identification to ensure that it is consistent.

Department's response. As a result of clarification of certain aspects of this policy earlier in the year, the Department believes that the policy is being consistently applied. The Department will continue to monitor its application to ensure that it continues to be applied in a consistent manner.

- Detention cost and availability of facilities bear heavily on Citizenship and Immigration Canada's ability to detain. The Department uses its own facilities for a significant number of detention days. In 2001–02 the Department held people in its own facilities for 51,261 days (Exhibit 5.8) at a cost of \$10.5 million.
- The Immigration detention facilities in the three regions we visited are very different—yet the mandates and circumstances are very similar. Vancouver has a 24-bed facility with a maximum stay of 72 hours. Toronto has a 130-bed facility for short and long-term stays. Montréal has a 160-bed facility for short or long term stays, including 72 dormitory-style spaces used for overflow. Capacity is limited by the physical attributes of the facilities and by operating costs. In the Ontario and Quebec regions, facilities are operating at close to capacity. In all three regions, the costs of operating facilities and paying for space in provincial and other facilities often exceed the combined budgets for all types of facilities.
- In the Ontario Region, the Department has used the Toronto Bail Program to help with some of its capacity and budget problems. Staff of the program supervise some people who would otherwise be detained. In 2001-02, 191 people were supervised under this program, 9 of whom went missing. The Department saves on detention costs by using this program, but could not calculate accurately the amounts saved.
- The 2000 study stated that detention space is a major concern in Vancouver and Toronto; officers there, particularly at ports of entry, highlighted the difficulties this presents when they are considering detention. The 2002 study noted that there should be at least a minimum capacity to hold non-criminals in Immigration facilities across the country.
- Facilities in the Ontario Region reached capacity several times over the last few years and officers were instructed to choose people for detention carefully and consider alternatives to detention. The increased use of detention for lack of proper identification and the pre-removal risk assessment process have placed more strain on detention facilities. Preremoval risk assessment allows people to appeal a removal order if they believe they would be in danger if returned to their home countries. The Department may decide to detain individuals until it can hear their appeals.
- We are concerned that lack of capacity and tight budgets are affecting detention decisions. The ability of immigration officers to detain as necessary is a key control in the enforcement program.
- 5.90 The Department developed the National Standards & Monitoring Plan for the Regulation and Operation of CIC Immigration Detention Centres in the summer of 2002. At the time of our regional visits, monitoring against the standards had not yet begun and no monitoring reports were available. However, managers at all three facilities told us that some areas needed improvement to meet the national standards.

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Timely removals while respecting legal rights

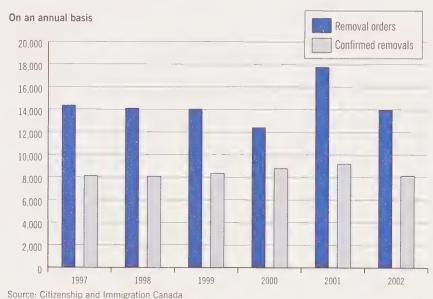
- 5.91 The goal of enforcement staff in Canada, who perform both investigations and removals, is to quickly remove individuals who are here illegally. This must be done in a safe, effective, and respectful manner while ensuring that the individual's legal rights are maintained.
- **5.92** Officers issue removal orders as a result of examinations at ports of entry, investigations, hearings and appeals, and referrals from police or corrections. The removal process can begin only when a removal order becomes effective or enforceable; this means that a person has either waived certain legal rights or exhausted all legal rights and is not allowed to remain in Canada.
- 5.93 Enforcement officers work on removal orders until all obstacles to removal are cleared, and they escort people during deportation when necessary. They cannot remove someone as long as that person's legal rights allow him or her to stay. Removal cases are typically prioritized according to the perceived degree of threat to the health and safety of the Canadian public. People with criminal convictions, or who threaten Canada's security, take priority over failed refugee claimants and those who overstay a visit.
- 5.94 The legal details of removals make it difficult for the Department to carry out removals in a quick and cost—effective way. Delays, which can take several years, can be due to stays ordered by a court, incarceration due to criminal charges in Canada, or the Minister's temporary suspension of removals to countries where there are general risks to safety and security.
- 5.95 Obtaining travel documents for the person Immigration wants to remove poses one of the biggest challenges once the person has exhausted all legal claims to remain in Canada. In 2000, the Department estimated that close to 60 percent of all refugee claimants arrived with no documents or with false documents. While the Department continues to negotiate removal agreements with several countries, these agreements do not guarantee swift removals. Citizenship and Immigration Canada must find passports or visas for these people to travel, and both the people and the destination countries may be unco-operative.
- 5.96 Once the Department is sure that all legal claims have been exhausted, an immigration officer interviews the individual to find out if that person
 - · requires an escort,
 - · should be held in custody until the removal date, or
 - will leave voluntarily.
- 5.97 Court proceedings can result in long delays. During a delay, a case may change suddenly from being removal-ready to having the removal order stayed by court order or requiring more investigation.
- 5.98 A 1998 Québec Region study stated that 75 percent of successful removals were performed within four months of the decision or event that initiated the removal stage. Removals not executed within four months took much longer to complete, and the failure rate increased. This study also

noted that 44.8 percent of those facing removal had gone into hiding and their status was unknown. We have not seen any other studies that track removal cases and their duration through the various steps in the system.

A growing gap between removal orders and confirmed removals

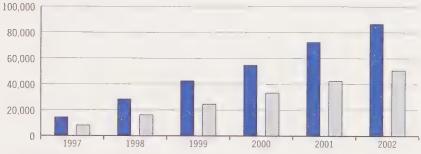
During the past six years, the Department has removed an average of about 8,400 persons per year (Exhibit 5.9). In 2002, some 8,100 persons were removed. The gap between removal orders and confirmed removals has grown by about 36,000 in the past six years. This does not necessarily mean that all these people remain in Canada illegally. For example, some may have

Exhibit 5.9 Removal orders and confirmed removals



Note: These figures do not include conditional removal orders, for example, refugee claimants awaiting a hearing or decision by the Immigration and Refugee Board.

On a cumulative basis



Source: Citizenship and Immigration Canada

- 1. These figures do not include conditional removal orders, for example, refugee claimants awaiting a hearing or decision by the Immigration and Refugee Board.
- 2. The cumulative totals start from 1997

left voluntarily without reporting their departure. It is impossible to verify all departures because Canada has no exit controls. Either the immigration officer who escorts the individual from Canada, or, if unescorted, that individual, is expected to confirm a successful removal order at a port of entry. Citizenship and Immigration Canada does not have a national figure for removal orders that are not completed because of delays in getting travel documents or because Canada has temporarily stopped sending individuals to certain countries.

5.100 An increasing backlog of enforcement activities is caused in large part by outstanding removal orders. The three largest enforcement offices informed us that about 11,000 investigations have not been assigned or are pending assignment. In addition, the Immigration and Refugee Board had a backlog of about 53,000 cases at the end of December 2002. The Immigration and Refugee Board estimates that historically about 45 percent of its decisions, on average, resulted in cancelled removal orders. Therefore, the Department can calculate that it will soon have to process about 29,000 more people now in Canada. In light of the increasing gap between removal orders and confirmed removals, we are concerned that Citizenship and Immigration Canada has not analyzed how it will handle its growing backlog of investigations and removals.

5.101 The Department is attempting to increase its effectiveness at removals by co-operating with others. In December 2002, it signed a new national policy framework agreement with the RCMP to establish integrated immigration enforcement teams in Vancouver, Toronto, and Montréal. The teams are operating in Vancouver and Montréal, and the Toronto team plans to start up in 2003–04. Part of the mandate of the teams is to review and prioritize outstanding immigration warrant cases, most of which are for removals. At the international level, the Department has begun co-operating with the U.S. in removal operations using chartered flights. Some of these removals have involved high-risk individuals who could not easily be removed on regular flights.

An unexplained difference between the number of unexecuted removal orders and outstanding arrest warrants

5.102 When there is an enforceable removal order against a person, Immigration officers may enter an arrest warrant into the Field Operations Support System if

- the person does not show up for a hearing or an interview, or
- the Department does not receive confirmation of the person's departure.

5.103 Through the RCMP's Canadian Police Information Centre this System shares information with police about individuals who have outstanding immigration warrants. A warrant is the key method of alerting police or immigration officers to arrest an individual.

5.104 As noted, over the last six years about 36,000 removal orders have not been executed. The Field Operations Support System shows about 30,000 outstanding arrest warrants for removals, some of which date from before

1997. For some removal orders that are not executed for reasons such as temporary suspension of removals to certain countries, the Department would not enter an arrest warrant into the System. However, we are concerned that the difference between the number of unexecuted removal orders and the number of arrest warrants in the System could mean that warrants have not been entered that should have been. The Department has not reconciled the difference.

5.105 Immigration has poor control over attendance at the removal interview or scheduled departure. Once a removal order becomes enforceable, the Department conducts a removal interview. In 2000, the Department estimated that 50 percent of the individuals scheduled for removal did not appear for the removal interview or the scheduled departure. The *Immigration and Refugee Protection Act* allows officers to detain an individual if they think the person might not show up. The high percentage of no-shows suggests that the Department needs to better assess, document, and manage the risk that people will not appear. Failure to show up at the removal interview or the scheduled departure costs the Department time and money because a new removal arrangement has to be made and a search conducted for the missing person.

5.106 In some offices, managers are trying new approaches to address the growing backlog of removal cases (see case study, "Dealing with the removals backlog").

Dealing with the removals backlog

Integrated task forces

In 1994, Citizenship and Immigration Canada and the RCMP established integrated task forces in Montreal, Toronto, and Vancouver to investigate and remove people with serious criminal backgrounds. The Toronto force still operates but the Montreal and Vancouver forces ceased shortly after they began.

Failed Refugee Project

The Greater Toronto Enforcement Centre started the Failed Refugee Project in January 2000 to speed the removal of unsuccessful refugee claimants from Canada. Shortly after the Immigration and Refugee Board rejects a claim, immigration officers meet with claimants who are able to leave the country and encourage them to do so. Claimants on social assistance receive first priority. At first, the Department offered to pay for the claimant's airline ticket, but the project only does this now if necessary.

Removals of unsuccessful refugee claimants by the Greater Toronto Enforcement Centre totalled 725 for 2000-01 and 1,354 for 2001-02. About 60 percent of the claimants left voluntarily after the personal interview. A timely follow-up investigation resulted in a further 20 percent leaving. As a result, about 80 percent of those scheduled for removal left Canada. The voluntary departures saved the Department from expensive and time-consuming investigations and removals.

The Centre scaled back this project because of a shortfall in resources. The officers dedicated to the project have been reduced to five from ten. The Centre expects that it will not be able to keep up to its caseload.

The British Columbia and Yukon region started a similar project that produced comparable results. The region has scaled back this project, too.

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5.107 Recommendation. The Department should improve its tracking of removal cases. It should give higher priority to reducing the backlog of removal cases.

Department's response. The Department agrees. Significant progress has been made with the implementation of the National Case Management System (NCMS) in its enforcement offices across Canada. The NCMS will enhance the Department's ability to track removal cases electronically. The rollout of the NCMS to all its enforcement offices is nearing completion with the remaining 3 offices (of a possible 36) scheduled for implementation in June 2003.

A need for more and better information

A key support system needs further development

5.108 In our 1997 Report, Chapter 25, The Processing of Refugee Claims, we noted that the Department did not have enough information to manage removals adequately. We also noted that the Department recognized that the Field Operations Support System did not provide the management information or the case-tracking capability needed for the enforcement program. Regions managed their workloads using their own systems. In 1999, the Department began using the National Case Management System to help officers track their caseloads. After many problems, the system was restructured in the fall of 2001 and is now a valuable electronic tracking tool that significantly improves officers' ability to manage enforcement cases. However, it still requires further development to realize the original concept of a national system. At the end of September 2002, only 24 of 36 immigration offices in Canada were using the National Case Management System. Consequently, the Department cannot currently produce national reports, and other reporting capabilities are severely limited.

5.109 The Department's Field Operations Support System is not fully linked with the National Case Management System, and so officers have to enter some of the same data twice for enforcement actions. As yet, there is no data management quality assurance program that would, for example

- set national standards for entering case information, and
- establish quality control measures to ensure data accuracy.

5.110 In January 2003, the Department approved additional funding to put into place the National Case Management System in all offices. The Department also allocated funds for the ongoing support of the National Case Management System for users, and is considering using funds from the public security and anti-terrorism budget to start up and support a data management program.

5.111 We note that Citizenship and Immigration Canada is planning to implement the Global Case Management System by 2005 to replace its three main systems for managing operations (the National Case Management System, the Field Operations Support System, and the Computer Assisted Immigration Processing System). The project is behind schedule due to delays in selecting a contractor. The Department has classified the project as high risk owing to its size, nature, and complexity.

5.112 Recommendation. The Department should improve the capability and data integrity of the National Case Management System.

Department's response. The Department agrees and is developing a data management framework for the NCMS and eventually the Global Case Management System. It will include standard operating procedures, monitoring, quality control and performance measurement at both the national and regional levels. This framework, once completed will ensure a higher level of data integrity.

Citizenship and Immigration Canada managers do not routinely use some key information in managing the enforcement program. We found instances where the Department generated key information only after we requested it for our audit—for example, the number of removal orders that could be acted on and the number of active enforcement officers and their caseloads. In another instance, the Department was not able to tell us the number of people detained for identification purposes.

5.114 Informed decision making depends on having good information available and its use. In our view, department managers need to take better advantage of performance information that is available in the National Case Management System. The Department also needs to improve the quality of information to better manage the enforcement program.

5.115 Many of our observations have been made in our previous Reports. In our 1990 Report, Chapter 15, Control and Enforcement, we observed the following:

- The existing interdepartmental agreements did not always address responsibilities and accountabilities for some important immigration activities.
- Customs officers on the primary inspection line did not have a performance measurement system for immigration matters. Also, immigration officers were providing only limited feedback to the primary inspection line officers.
- The backlog of investigations was serious.
- The majority of removal orders for failed refugee claimants had not been carried out.

5.116 In our 1997 Report, Chapter 25, The Processing of Refugee Claims, we observed that the Department was experiencing a lot of difficulty carrying out removals.

5.117 In December 2001, the Standing Committee on Citizenship and Immigration published a report on Immigration's border control activities. The Committee recommended many improvements in the areas of cooperation and co-ordination between Canada and the U.S., overseas interdictions, operations at ports of entry to Canada, and resources and technology to aid in controlling access to Canada. Many of the Standing Committee's observations are similar to those of this audit. In May 2002, the Department published its response to the report in which it described many of the actions it was taking to improve border control.

Interdictions—Control activities that prevent illegal travellers and criminals from reaching Canada.

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Conclusion

5.118 Enforcement activities are under increasing stress and are falling behind. The gap between removal orders and confirmed removals is increasing. Detention budgets and facilities are a departmental concern. The growing backlog in enforcement activities places the integrity of a major part of the immigration program at risk.

5.119 Our examination at ports of entry found problems that have been present for several years. The Department does not currently know how well the Canada Customs and Revenue Agency is performing its immigration-related duties, nor how well Immigration's secondary examination process is working. Citizenship and Immigration Canada and the Canada Customs and Revenue Agency need an updated agreement that includes performance standards and a way to evaluate and measure performance.

5.120 At the offices abroad that we visited we found that the Department grants temporary visas from outside Canada according to Immigration policy. Immigration control officers abroad are intercepting travellers with improper documents and the role of the officers is being expanded.

Department's overall response. Citizenship and Immigration Canada acknowledges the importance of the observations made by the Office of the Auditor General in the Report. We are committed to building on the improvements we have made through the new *Immigration and Refugee Protection Act*, border management strategies, intelligence-led security strategies, and strengthened modern management practices.

The challenge, as confirmed by the Auditor General, is in balancing the competing demands of facilitating entry of legitimate travellers while preventing the entry of inadmissible persons to Canada. The observations will help the Department to improve its enforcement and control activities and meet its program integrity objectives. Strengthening work in the area of modern management through the implementation of the integrated risk management framework developed last year, addresses the observations made by the Auditor General in this and other reports on the need to systematically identify risks and measure performance.

We appreciate the Auditor General's recognition of the substantial progress the Department has made in several key areas, specifically

- The successful implementation of the new *Immigration and Refugee*Protection Act. The Department invested (and continues to invest)

 considerable efforts to ensure continued success in the implementation of the legislation.
- The implementation in 2002 of the new permanent resident card. The card contains many state-of-the-art security features and has been recognised internationally as one of the best identity cards world-wide.
- Successful negotiation and signing of the Safe Third Country Agreement with the United States. Implementation of this agreement is

- scheduled for 2003. The Agreement will improve the management of refugee claims in both countries.
- The national implementation of the Advance Passenger Information Program. This joint initiative between Citizenship and Immigration Canada and the Canada Customs and Revenue Agency will help identify high-risk air passengers who may pose security or safety threats to Canadians.
- The implementation of disembarkation and response teams for rapid passenger screening at ports of entry.

Citizenship and Immigration Canada is fully committed to addressing all the recommendations of the report and views the relationship with the Canada Customs and Revenue Agency as a critical element in meeting this objective. Senior management is fully engaged with their counterparts at CCRA with the aim of having an updated memorandum of understanding soon. In conjunction with these discussions, plans are already being formalized to put into place the recommended mechanisms to perform ongoing evaluations of the effectiveness of the primary inspection lines and secondary examination processes.

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About the Audit

Objectives

The purpose of this audit was to determine whether Citizenship and Immigration Canada is managing control and enforcement activities efficiently and effectively in keeping with Canadian immigration policy.

Scope and approach

This audit covered the three major sectors where control and enforcement activities take place: at posts abroad, at official ports of entry to Canada, and inland.

We did not examine another important part of Citizenship and Immigration Canada's activities—facilitating the arrival of newcomers to Canada and their integration into Canadian society. We did not examine the activities of the Immigration and Refugee Board.

In addition to discussions with the Department at national headquarters in Ottawa, we visited posts in Vienna; New Delhi; Manila; New York City; Accra; London; Singapore; Hong Kong; and Guatemala City.

We visited various ports of entry at

- Pearson, Vancouver, Dorval, Halifax, and Winnipeg international airports;
- land borders in Douglas, British Columbia; Emerson, Manitoba; Prescott, Ontario; Fort Erie, Ontario; Lacolle, Québec; Hemmingford, Québec; and Dundee, Québec;
- · Vancouver's Amtrak train station; and
- the port of Vancouver, including the cruise ship terminal at Canada Place.

Inland, we visited Citizenship and Immigration Canada offices at

- national headquarters;
- Ontario, British Columbia and Yukon, Prairies and Northern Territories, Québec, and Atlantic regional headquarters,
- · the Greater Toronto and Vancouver enforcement centres, and
- the Niagara district office.

We also visited detention facilities in Vancouver, Toronto, and Montréal.

Our examination was conducted by interviewing staff, reviewing files and management reports, and analyzing data.

Criteria

Our audit was based on the following criteria:

- Roles and responsibilities within the federal government should facilitate the efficient and effective management of the immigration program.
- Support systems should provide timely information for rapid decisions on admissibility.
- Staff should be suitably trained to carry out their responsibilities under the *Immigration and Refugee Protection* Act.
- The Department should have appropriate information and feedback systems to monitor program performance and assess the quality and consistency of decisions.
- The organization of activities and allocation of resources should reflect program risks and encourage the achievement of program objectives.

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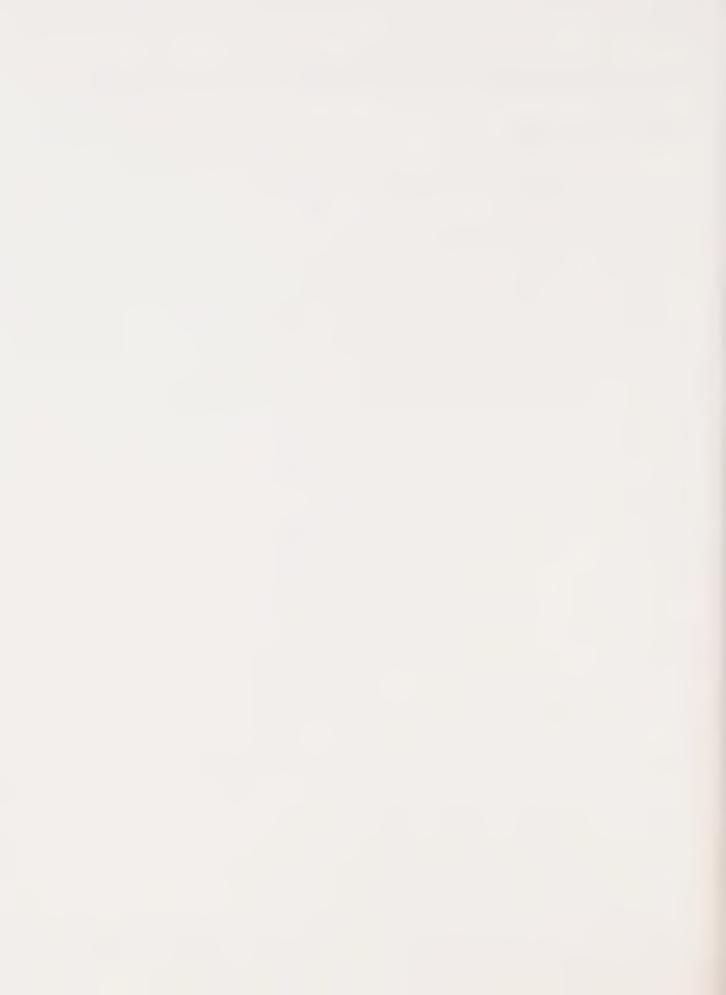
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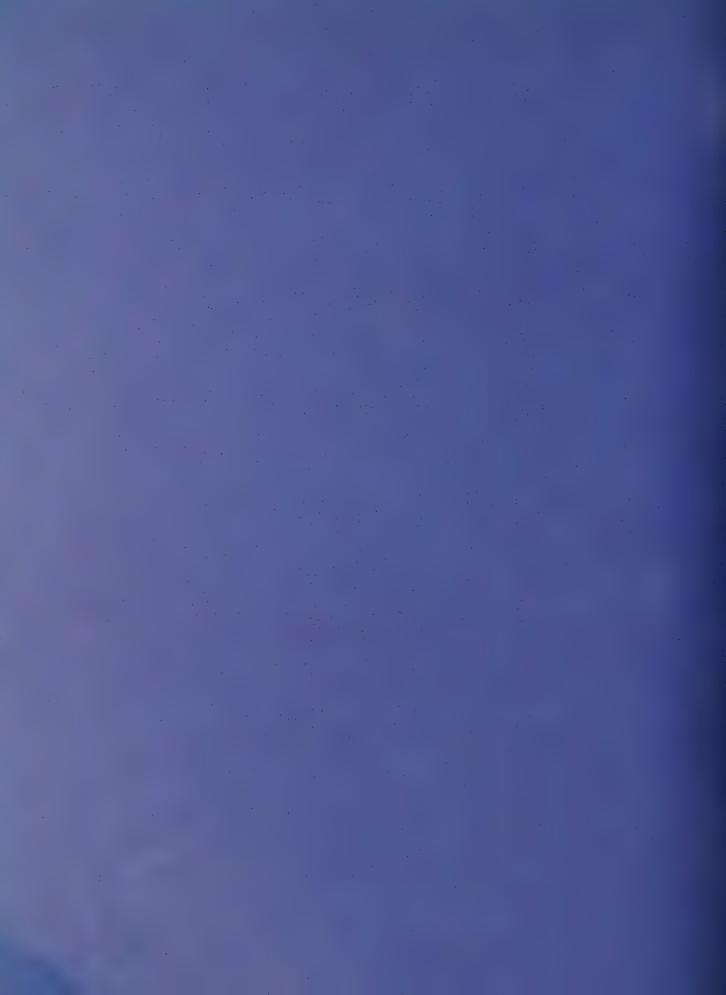
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2003



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to the House of Commons

APRIL

Chapter 6
Federal Government Support to First Nations—
Housing on Reserves

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to the House of Commons

APRIL

Chapter 6

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The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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Chapter

6

Federal Government Support to First Nations—Housing on Reserves

All of the audit work in this chapter was conducted in accordance wit. Canadian Institute of Chartered Accountants. While the Office adopt we also draw upon the standards and practices of other disciplines.	h the standards for assurance engagements set by the s these standards as the minimum requirement for our audits,

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Federal Government Support to First Nations—Housing on Reserves

Main Points

- 6.1 Poor housing on reserves has a negative effect on the health, education, and overall social conditions of First Nations individuals and communities. Although we noted signs of improvement in some First Nations communities, there is still a critical shortage of adequate housing to accommodate a young and growing population. In 2001, Indian and Northern Affairs Canada estimated that there was a shortage of about 8,500 houses on reserves and about 44 percent of the existing 89,000 houses required renovations. The growth rate of the on-reserve population is twice that of the Canadian average, with more than half the population under 25 years of age.
- 6.2 Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation (CMHC) are the two main federal organizations that assist First Nations in meeting their on-reserve housing needs. We calculated that these two organizations have provided First Nations with about \$3.8 billion over the last 10 years for on-reserve housing. However, they have not clearly defined what their assistance is intended to achieve in terms of addressing the critical housing shortage; nor have they defined a time frame in which to achieve it.
- 6.3 The Department's and CMHC's programs and funding mechanisms to support on-reserve housing are complex and need to be streamlined, with clear assignment of responsibility for results. All the main parties involved—First Nations individuals, their leaders, and federal organizations—need to reach a broad agreement on their respective roles and responsibilities for on-reserve housing.
- 6.4 Parliament is not receiving a complete picture of the housing situation on reserves and what is actually being achieved with departmental and CMHC funds. Better information about on-reserve housing costs, program performance, and results is also needed, both to help the Department, CMHC, and First Nations make informed decisions about the allocation of funds and to strengthen accountability to Parliament and to First Nations communities.
- 6.5 Although some corrective action is being taken or planned, we identified a number of additional issues that the Department and CMHC need to address promptly to improve program performance and to ensure compliance with authorities. These issues are reflected in our recommendations.

Background and other observations

- The First Nations populations on reserves are diverse. Significant differences exist among communities in their culture, size, location, aspirations, capacity, and access to non-government resources. Despite some progress, the gap in socio-economic conditions between First Nations and the rest of Canada remains wide.
- On-reserve housing is fundamentally different and more complex than off-reserve housing. It is governed by the legal framework defined by the Indian Act. Many practices and approaches related to off-reserve housing do not apply on reserves. For example, taking out a mortgage to buy a house or renting an apartment, and all the infrastructure, rules, and regulations that surround these activities, are taken for granted off-reserve. However, they do not exist to the same extent—or at all—for on-reserve housing.
- 6.8 In 1996 the government approved a new on-reserve housing policy. It was intended to provide First Nations with more flexibility and control in managing their housing funds to better address the housing needs of each community. The Department and CMHC announced that \$140 million in funds to support the policy changes would be reallocated from their existing budgets over the next five years. The Assembly of First Nations, however, estimated that about \$750 million would be required annually to meet the increasing housing needs of the growing on-reserve population and that an additional \$2.5 billion would be needed to deal with the shortage of adequate houses.
- 6.9 The unacceptable housing situation on reserves is a long-standing problem. It has been the subject of numerous studies over the last 20 years, including an important study by the Royal Commission on Aboriginal People in 1996. However, according to the Department, despite some progress the current level of investment by all parties is insufficient for many First Nations to sustain improvements and keep pace with the demand over the long term. As a result, the high levels of substandard housing and overcrowding are expected to continue.

Indian and Northern Affairs Canada, Canada Mortgage and Housing Corporation, and Health Canada have responded. The Department accepts all the recommendations and states that it will co-operate with First Nations, CMHC, and other federal departments to develop strategies to improve housing conditions on reserves.

Canada Mortgage and Housing Corporation accepts most recommendations, and states that it will continue to work with First Nations and the Department to address the issues raised in the report. CMHC believes its role is clear and its programs have clearly defined objectives. It also believes that the responsibility for meeting the National Building Code rests with First Nations.

Health Canada agrees with the recommendation directed to it.

Introduction

A critical shortage of adequate houses continues

- 6.10 Numerous studies over the last 20 years have noted that poor housing negatively affects the health, education, and overall social conditions of individuals and communities on reserves (see Appendix A). They have all called for action to address the shortage of adequate housing on reserves.
- 6.11 In 2001, Indian and Northern Affairs Canada estimated there were about 89,000 housing units on reserves to accommodate about 97,500 households, a shortage of 8,500 units. In addition, around 44 percent of existing units required renovations. About 4,500 new households are expected to be formed every year for at least the next 10 years. Current federal funding is expected to support the construction of about 2,600 houses and the renovation of about 3,300 houses a year.
- **6.12** First Nations told us that housing is a high priority for them. Yet, according to the Department, despite progress in some communities the current level of investment by the main parties is insufficient for many First Nations to sustain improvements and keep pace with the demand over the long term. As a result, the high levels of substandard housing and overcrowding are expected to continue given the growing population, rising construction and maintenance costs, limited access to non-government resources, and growing debt levels.

Profile of First Nations communities and issues affecting on-reserve housing

- 6.13 According to the Department, there are 612 First Nations communities consisting of 52 nations or cultural groups and more than 50 languages. Most First Nations communities have fewer than 500 residents. In 2001 about 423,000 people were living on reserves (about 146,500 on reserves located in urban areas, 189,000 in rural areas, 15,500 in remote regions, and 72,000 in special access areas). In general, the housing stock deteriorates more rapidly on reserves; this is attributed mainly to substandard construction practices or materials, lack of proper maintenance, and overcrowding.
- 6.14 People living on reserves face some fundamental and long-standing issues that impede progress on improving their housing conditions. For example, the legal rules applicable to housing on reserves may be difficult to determine. The powers of band councils to regulate on-reserve housing are not clear. In addition, under the *Indian Act*, the Crown holds title to reserve lands, and properties located on reserves can be mortgaged only in favour of, or by, an Indian or band. Exhibit 6.1 summarizes key differences between on-reserve and off-reserve housing.
- 6.15 Socio-economic factors in First Nations communities also contribute to their poor housing. According to departmental data, the growth rate of the on-reserve population is twice that of the Canadian population, with more than half the population under 25 years of age. The unemployment rate is

Special access area—An area where a First Nations community has no year-round road access to supplies and equipment, a pool of labour, at least one financial institution, and government services.

twice the national rate and significantly higher among the young. Average income levels are less than 60 percent of the Canadian norms. Social problems on reserves, such as alcohol and drug abuse, family violence, and suicide, are also linked to poor housing conditions.

Several First Nations told us that increasing debt is impeding their ability to build and renovate houses. We noted that housing-related debt, guaranteed by the Minister of Indian and Northern Affairs, has increased from \$806 million in 1992–93 to \$1.25 billion in 2001–02.

Exhibit 6.1 Differences between on-reserve and off-reserve housing

Dimension	On-reserve	Off-reserve
Ownership	 Crown has title to land. Collective possession of land and houses is most prevalent. Individual possession is under the <i>Indian Act</i>. 	 Land and houses are privately owned. Collective possession of land and houses is rare.
Financing	 Indian Act allows mortgage or seizure of land and property, in favour of, or by, an Indian or a band. Access to private financing is limited; there is no collateral. Government subsidies are critical. Ministerial loan guarantee system is available but must be supported by the community. 	 Land and property can be mortgaged and seized, within the legal framework. Access to private financing is the norm. Lending institutions specializing in property financing are involved. A complex financial system is used to ensure flow of funds and mitigate risks.
Legal rules governing housing, rent, occupancy, tenure, ownership, and responsibilities	 Legal powers of band councils to define and enforce rules are imprecise. Limited enforcement. Not clear to what extent off-reserve legal framework is applicable. 	 Covered under provincial laws. Enforced by designated agencies and judicial system.
Housing supply	 Many occupants do not consider it their responsibility to meet their housing needs. Many occupants carry out little maintenance, repair, or renovation. Access to building supplies and skilled labour is limited in isolated areas. Application of codes and regulations is uncertain. 	 Individuals are responsible for meeting their housing needs. Occupants/owners buy or rent, maintain, repair, and renovate. There is generally a good supply of material and labour. Inspections ensure compliance with applicable codes and regulations.
Housing allocation	 Chiefs and councils often decide on the number of constructions and renovations each year and their allocation. Limited market for buying, selling, or renting houses. 	 Individuals can buy, sell, and rent houses on local markets. Private financial means is the main form of allocation.
Geographical considerations	65% of the population is in rural, remote, and special access areas.	80% of the population is in urban areas.

6.17 Despite these impediments, we noted that some communities have implemented good housing practices and found solutions to most of their housing problems (see case study, "Successful housing initiatives in a First Nations community"). Other First Nations could benefit from these practices.

Federal programs and funding to support on-reserve housing

6.18 Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation (CMHC) are the two main federal organizations that assist First Nations in meeting their on-reserve housing needs. Each organization is decentralized and provides its assistance to First Nations mainly through its regional offices. Although the Department does not compile the total annual federal funding to support on-reserve housing, we calculated that the Department and CMHC have provided about \$3.8 billion for on-reserve housing over the last 10 years. According to data from both organizations, these funds have contributed to the construction of about 29,000 houses, the renovation of about 33,000 existing houses, and the payment of subsidies for houses in the CMHC portfolio.

Successful housing initiatives in a First Nations community

Although First Nations housing on reserves is considered to be among the worst in Canada, some First Nations communities have established successful housing programs. One such community, the Mohawks of the Bay of Quinte in Ontario, was identified during the audit. This community has an on-reserve population of about 1,900, occupying about 800 houses (682 are privately owned and 118 are owned by the community and rented to members). The quality of housing is very good. The community's long-standing commitment to housing has resulted in diverse programs and services for members, the promotion of individual responsibility, and the construction of innovative, high-quality housing.

According to community leaders, specific practices contributed to housing success. A revolving loan program was created in 1971. This program provides housing loans to eligible community members, to a maximum of \$70,000, at a fixed interest rate of six percent. Applicants are selected through a point system. When selected, they are required to build their home to the applicable building codes and policies. The revolving loan fund is replenished each year through a combination of loan paybacks, interest charges, and a portion of the departmental housing subsidy. Typically, 12 new loans are approved every year. At January 2002, 347 loans were outstanding, totalling \$12.4 million. With incentives to facilitate loan repayments, default rates are very low. Individual owners are responsible for maintenance and upkeep of their units.

For the 118 rental units, a specific management regime ensures that these homes are constructed and maintained in accordance with relevant standards. Most rental units are built to R-2000 standards and include modifications to maximize energy efficiency. These units are also subject to periodic maintenance performed by the community's administration.

The community's management of housing has positioned the community as a model for other First Nations. It has won a number of awards, through CMHC and a provincial home builders association, for its innovative housing projects. In recent years, the community has also been successful in reducing the number of families waiting for rental units or housing loans.

Source: Community documentation and meeting with representatives

- 6.19 The Department's programs and funding. Indian and Northern Affairs Canada introduced a housing subsidy program in the mid-1960s. The program provided conditional subsidies to First Nations to assist in building and renovating housing through contributions. There were no significant changes to the program until the introduction of a new housing policy in 1996. According to the Department, its "core" housing budget is \$138 million a year and has essentially remained unchanged since the early 1990s. The Department also provides First Nations with about \$66 million annually to cover the costs of housing infrastructure such as roads and sewers. In addition, it contributes about \$75 million annually toward shelter through its social assistance program.
- 6.20 The Department's activities in on-reserve housing also involve providing ministerial loan guarantees. The guarantees allow individuals and communities to secure housing loans despite the fact that they cannot give a lender the rights to the property. In this process, the Minister guarantees repayment of a housing loan to an approved lender under the National Housing Act in the event of default by the borrowing First Nation or individual. In turn, the Minister seeks guarantees from First Nations that they will reimburse payments to an approved lender. Under existing authority, the Minister can guarantee up to \$1.7 billion in outstanding loans. At 31 March 2002, outstanding loans were more than \$1.25 billion and about \$10 million had yet to be recovered from First Nations as a result of defaulted loans.
- CMHC's programs and funding. As Canada's national housing agency, CMHC has a mission that includes a commitment to housing quality, affordability, and choice for Canadians. For the year ended 31 December 2001, CMHC spent about \$1.9 billion on housing programs and services across the country delivered through programs administered under the National Housing Act. These programs are intended to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions in general.
- CMHC became involved in on-reserve housing in the late 1970s. Initially, it provided assistance to First Nations incorporated as non-profit organizations. Since 1979, First Nations have had direct access to CMHC assistance through two main programs, the Non-Profit Rental Housing Program (section 95 program) and the Residential Rehabilitation Assistance Program (RRAP).
- Compared with departmental programs, CMHC programs are more targeted, with greater controls and reporting requirements for the use of funds. The section 95 program assists First Nations in the construction, purchase, rehabilitation, and administration of rental housing on reserves. Until 1997, CMHC provided a subsidy up to an amount that would reduce the interest rate on housing capital costs to two percent; this was known as a two percent write-down. In 1997 CMHC revised this program to allow First Nations more flexibility in determining the number and type of units within the subsidy dollars allocated. Under the revised program, CMHC provides a

"deep subsidy" to each approved project, which covers the difference between estimated expenditures and rental income. The CMHC subsidy runs for the duration (typically 25 years) of the loan used to finance the construction of the housing project. Exhibit 6.2 illustrates the financial assistance provided by the Department and CMHC to a First Nations housing project that we reviewed.

Exhibit 6.2 A First Nations housing project funded by Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation (CMHC)

Construction costs (1)		\$757,960
Financing:		
Departmental subsidy ⁽²⁾	\$320,000	,
Borrowing ⁽³⁾	\$437,960	
Total		\$757,960
Annual operating costs ⁽⁴⁾		
Capital and interest	\$35,099	
Insurance	\$3,640	
Maintenance	\$4,800	
Administration	\$4,800	
Local services	\$4,000	
Audit	\$800	
Replacement reserve ⁽⁵⁾	\$5,600	
Other	\$1,350	
Total		\$60,089
Annual operating revenue		
Minimum revenue contribution ⁽⁶⁾	\$27,000	
CMHC subsidy ⁽⁷⁾	\$33,089	
Total		\$60,089

Notes: The figures above are taken from an eight-house project we reviewed during the audit.

(1) These costs do not include infrastructure costs (about \$20,000/house) funded under another departmental program.

(2) The First Nation made the decision to combine the departmental housing subsidy and CMHC funding, with a view to increasing the number of houses built.

(3) Funds were borrowed from CMHC and covered by a ministerial loan guarantee from the

Department. The loan will be renewed every 5 years and repaid over 22 years. (4) Capital and Interest costs are actual; other costs are estimated by CMHC.

(5) The reserve is intended to cover the cost of replacing major house components, such as roof, furnace, flooring, and windows.

(6) This amount is set by CMHC and can be paid by either the occupants or the community. If the occupants were eligible for social assistance, the amount would then be financed by the Department's Social Assistance Program. Consequently, if the houses are occupied by social assistance recipients for the entire 22 years of the subsidy, the project will be fully paid for by departmental and CMHC assistance.

(7) The CMHC subsidy is calculated as the difference between loan payments and operating cost benchmarks, and minimum revenue contribution (rent). It will be adjusted at every loan renewal and provided monthly for 22 years. At that time, CMHC will stop subsidizing this project.

Source: Departmental and CMHC documentation

- According to CMHC, about 470 First Nations have used its programs. Under its section 95 program, CMHC subsidizes the operating costs (including the repayment of outstanding loans) of 22,000 of the total 89,000 houses on reserves. In 2001 CMHC spent about \$75 million under this program. However, the program is very sensitive to changing interest rates. A CMHC analysis indicated that a one-percent increase in interest rates in 2003 would result in a need to increase subsidies by about \$14 million over the next five years.
- 6.25 The other main program administered by CMHC, the Residential Rehabilitation Assistance Program, provides financial assistance to First Nations and their members to repair existing substandard housing to provide minimum levels of health and safety. In 2000-01, CMHC spent about \$12 million under this program.

The 1996 policy for on-reserve housing

- In 1996 the Department and CMHC requested the government's approval to implement a new federal on-reserve housing policy. The aim of the new policy was to increase local control and accountability for housing, improve program flexibility, and encourage more use of non-government resources to improve housing conditions. To obtain this flexibility, First Nations were required to prepare and implement community-based housing programs and multi-year housing plans. The programs and plans were to incorporate a broad range of elements consistent with the following policy goals:
 - Protect and extend the life of existing houses and ensure that housing meets minimum national standards by introducing maintenance and insurance regimes and renovation programs.
 - Construct good-quality, affordable new housing designed to respond to the variety of housing needs within the community.
 - · Promote individual pride and shared responsibility, including home ownership and increased private market investment.
 - Link housing activities with training, job, and business development to create new opportunities for socio-economic development.
- Under the proposed policy, community multi-year housing plans were to be the main tools for co-ordinating resources, measuring progress, and strengthening accountability to the government and the community. They were also to provide a basis for supporting federal funding.
- The Department and CMHC presented several options to the government in 1996. These varied in the level of federal resources that would be available to support the new policy and the pace at which they could be obtained. The Department and CMHC announced that \$140 million in funds to support the policy changes would be reallocated from their existing budgets over the next five years. The Assembly of First Nations, however, advocated a more substantial increase in federal expenditures, based on its assertion of First Nations' treaty right to housing. It estimated that about \$750 million would be required annually to meet the housing needs of the

growing on-reserve population and that an additional \$2.5 billion would be needed to deal with the shortage of adequate houses.

6.29 The government approved the new policy in July 1996. According to the Department, by March 2001 about 400 First Nations communities had adopted the new policy and had received a one-time contribution totalling about \$240 million that came from a reallocation of funds within the Department. The communities that did not adopt the 1996 policy continue to operate under the old policy.

Focus of the audit

- **6.30** Our audit examined the delivery of housing programs on First Nations reserves. The objectives of the audit were to determine whether roles, responsibilities, and expected results had been defined; management had assurance on the performance of the programs and was taking corrective action as necessary; authorities were in place and complied with; and appropriate information had been provided to Parliament.
- **6.31** The audit focussed on the Department's and CMHC's activities and results related to on-reserve housing. We did not audit the activities carried out by First Nations and their organizations. However, we sought their views on housing matters and visited eight First Nations communities to observe their housing situations. Further details on the audit are found at the end of the chapter in About the Audit.

Observations and Recommendations

Roles and responsibilities

6.32 We expected that following the approval of a new housing policy in 1996, the Department and CMHC would have clearly defined their roles and responsibilities and expected results, both for themselves and for the First Nations governments and individuals involved. However, we found little consensus among the parties on what they believed their respective roles and responsibilities to be in addressing the housing needs of people living on reserves. We also found that the Department's and CMHC's programs and funding mechanisms to support on-reserve housing are complex and need to be streamlined. These issues have a negative effect on program participation and the management of housing on reserves.

Key players disagree on their roles and responsibilities

- 6.33 The main parties involved with on-reserve housing are Indian and Northern Affairs Canada, Canada Mortgage and Housing Corporation, First Nations and their housing authorities and tribal councils, and the families that live in the houses. Each of these parties has an important role in providing and maintaining adequate on-reserve housing.
- 6.34 Many First Nations individuals, chiefs and councils, and organizations believe that First Nations people living on reserves have a treaty right to free housing. They believe that the federal government is responsible for providing First Nations with enough funds to meet its treaty obligations. The

government does not agree that on-reserve housing is a treaty right, and it provides assistance pursuant to government policy.

- In First Nations communities that support the concept of "free housing," many individuals are unwilling to make a financial contribution to meet their housing needs. In addition, some First Nations do not take advantage of CMHC assistance because it requires a financial contribution from individuals or the community. According to the Department and CMHC, this makes it difficult to plan and manage federal programs that require a contribution from individuals or the community.
- The Department and CMHC have not defined, jointly or separately, what the federal assistance is intended to achieve in terms of addressing the critical housing shortage; nor have they defined a time frame in which to achieve it. Further, the organizations are not always clear about their respective roles and responsibilities. For example, confusion exists over who is responsible for allocating CMHC funds to the regions. CMHC has acted on the understanding that the Department determines how CMHC funds are to be allocated. The Department, however, believes that it simply provides advice to CMHC and that the Corporation is not obligated to follow the advice. This lack of clarity clouds accountability for the CMHC funds that are allocated to the regions.
- It is also not clear whether the Department's role is that of a "funding agency" or what its role entails. We noted that practices vary significantly in the regions. While some regions attempt to manage their housing programs for example, by providing funds on a project basis—most regions interpret their role as that of a funding service with little or no accountability for results.
- 6.38 Recommendation. Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation, in consultation with First Nations. should reach a broad agreement on their respective roles and responsibilities in addressing the housing shortage on reserves.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC will work with Indian and Northern Affairs Canada and the First Nations to ensure a clear understanding of respective roles and responsibilities. CMHC programs have clearly defined objectives, program policy guidelines, and related accountability measures. These program objectives include creating a new supply to alleviate overcrowding and meet the new demand, funding repairs to existing housing, providing for special housing needs of the elderly or disabled, and building the capacity of First Nations and their housing institutions. CMHC's role is clear. As Canada's housing agency, it delivers specialized housing programs and related capacity development activities to First Nations. With respect to allocation decisions, the 1996 housing policy confirmed that Indian and Northern Affairs Canada has the lead role in on-reserve housing; consequently, the Department has been allocating CMHC program budgets (section 95 program and Residential Rehabilitation Assistance Program) in conjunction with its housing funds.

10

Federal programs and funding are complex

- 6.39 As already noted, the Department and CMHC have introduced a number of programs and funding mechanisms over the last several decades to assist First Nations with on-reserve housing. These programs have operated largely independent of each other and have not been well co-ordinated. The policy changes introduced in 1996 were intended, among other things, to streamline federal assistance and strengthen accountability to the government and First Nations communities. We found that, overall, the programs and funding mechanisms continue to be complex and accountability for results remains unclear.
- **6.40** The Department and CMHC both support the construction and renovation of houses. While the programs and funding mechanisms of both organizations are complex, they are very different from one another. Appendix B illustrates the complexity and differences.
- 6.41 In the Department, the on-reserve housing activity is one part of the Indian and Inuit Affairs Program, which provides broad community funding assistance. The Department has two housing policies and uses five different types of funding agreements to transfer funds to First Nations. Although these agreements contain general provisions on how money is to be spent, they do not always specify the intended results or require recipients to be accountable for the results.
- 6.42 CMHC introduced a simpler program after the 1996 policy was adopted, but it has not harmonized the old program with the new one. As a result, CMHC and the affected First Nations are now administering two programs with different operating and funding conditions and reporting requirements. This situation will continue until the old agreements expire over the next 15 to 20 years.
- 6.43 Having to deal with two federal organizations that operate a number of housing programs under different management and control frameworks adds to the complexity. First Nations told us that they do not understand why they have to deal with two organizations and that they find their programs confusing and costly to administer. The Department and CMHC informed us that while the Department's mandate is to provide overall assistance to all First Nations, CMHC delivers specialized housing programs and provides housing expertise.
- **6.44** Recommendation. Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation should streamline their program structure and delivery.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC agrees with this recommendation and is committed to continuing to identify opportunities to streamline program structure and delivery. The overall range of program options is indicative of the complexity of on-reserve housing.

Program performance



Mould contamination inside a home

Source: Indian and Northern Affairs Canada

Mould contamination is a significant problem

- 6.45 Mould is a fungus with a cotton-like appearance. Under certain conditions, it produces poisonous substances that can cause headaches, dizziness, and nausea. According to the Department, problems with mould exist in many on-reserve houses. The main factors contributing to the mould are lack of proper care or maintenance, inadequate air circulation and ventilation, poor site selection and drainage, overcrowding, and improper construction.
- 6.46 After the 1996 policy was introduced, a committee consisting of members from Indian and Northern Affairs Canada, CMHC, Health Canada, and the Assembly of First Nations was formed to address the mould problem. The focus to date has been limited to promoting awareness and prevention of mould by distributing information kits and householder pamphlets. CMHC, in conjunction with an Aboriginal advisory group, has also developed training sessions with the aim of producing qualified technical advisers to assist First Nations in dealing with health and safety emergencies related to mould.
- 6.47 We are concerned that although mould contamination has been identified as a serious and growing health and safety problem for several years, a comprehensive strategy and action plan has not yet been developed. The Department and CMHC, together with First Nations, have not fully assessed the extent of mould contamination on reserves and the full cost of remediation, which could amount to more than \$100 million based on preliminary estimates in three regions. Currently, the Department and CMHC do not know how much they are spending to address the mould problem because such costs are not tracked separately.
- **6.48** Recommendation. Indian and Northern Affairs Canada, Canada Mortgage and Housing Corporation, and Health Canada, in consultation with First Nations, should develop a comprehensive strategy and action plan to address the problem of mould on reserves.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC recognizes that mould contamination on reserves is a serious issue. CMHC will continue to work in co-operation with Indian and Northern Affairs Canada, Health Canada, and the Assembly of First Nations to address this issue.

Health Canada's response. Agrees.

Little assurance that houses on reserves meet National Building Code

6.49 Since 1983, the federal government has required that all new construction that the Department funds meet the National Building Code standards, as a minimum. This requirement was intended to extend the useful life of houses, protect the health and safety of occupants, and help ensure reasonable operating costs. We are concerned that the Department and CMHC cannot consistently demonstrate that federally subsidized housing on reserves meets the Code.

- 6.50 Departmental officials say that each band chief and council are responsible for ensuring that all housing units on reserves, including those subsidized with federal funding, meet the National Building Code. A number of processes are in place to provide inspection services. While some First Nations have their own inspectors, others rely on tribal councils or inspection services controlled by First Nations. However, it is not always clear to what extent these inspections ensure compliance with the National Building Code. We found that requirements for First Nations to provide the Department with inspection reports vary from region to region. With the exception of one region, most inspection reports that we reviewed did not demonstrate that the housing complied with the National Building Code. We are concerned that without adequate inspection systems on reserves, there is a high risk that dwellings constructed and renovated with departmental subsidies will not meet the required standards.
- 6.51 Similar risks exist for housing activities subsidized through CMHC programs. CMHC requires First Nations to be responsible for ensuring that housing complies with the Code, but it does not require certification to that effect. Although new construction projects require as many as six on-site inspections, these inspections are not intended to certify compliance with the Code but rather to assess the progress of the project for payment purposes.
- 6.52 Although the Department's and CMHC's inability to demonstrate compliance of federally subsidized units with the National Building Code is a serious weakness, both entities are making efforts to promote First Nations capacity in this area. This capacity is being developed through the support of institutions involved with First Nations inspections and through efforts such as the Native Inspection Services Initiative. But much more work remains to be done before the government and First Nations can be assured that federally subsidized houses comply with the National Building Code. The capacity of the First Nations to conduct inspections needs to be further strengthened.
- **6.53** Recommendation. Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation, in consultation with First Nations, should provide reasonable assurance that all federally subsidized housing on reserves meets the National Building Code.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC is not a regulatory agency and has no mandate or authority to enforce building codes or standards. The responsibility to implement quality assurance measures and ensure code compliance rests with the First Nations. This is similar to off-reserve housing where local authorities such as municipalities, and sometimes provinces, are responsible for enforcement of building codes and standards. CMHC will continue to work to develop the capacity of the First Nations technical services industry. CMHC's Native Inspection Services Initiative currently provides training, support, and job opportunities to strengthen First Nations inspection capacity.

Unclear eligibility criteria and inadequate monitoring of departmental year-end transfers of funds for emergency housing

- 6.54 In January 2001, the Department reallocated about \$34 million of unspent funds from other programs to address urgent housing needs in First Nation communities. The process was repeated in late 2001–02, with \$40 million in funds reallocated. The reallocations were intended to provide additional funding to those First Nation communities with substandard or overcrowded housing conditions—that is, conditions posing significant health and safety risks that could not be addressed within the current housing program budget.
- 6.55 We expected that the Department would establish clear eligibility criteria and monitoring practices when it reallocated funds to housing. We found that, due to the late timing of these funds, both the Department and First Nations were under pressure to spend the money before fiscal year end. This resulted in "emergency spending" in the Department, with questionable results.
- 6.56 The Department had not established transparent eligibility criteria and a clear methodology for allocating emergency housing funds. We found inconsistencies between regional suggestions for funding and the final allocations made by headquarters. Departmental officials could not provide us with a clear rationale to explain these inconsistencies.
- 6.57 We also found that the management information specifying how the funds were spent was inadequate. The Department could not demonstrate how well emergency housing funds were used or whether they were actually spent on housing. We are concerned that the management processes in place do not ensure the most effective use of these funds.
- **6.58** Recommendation. Indian and Northern Affairs Canada should establish clear eligibility criteria for the use of funds that are reallocated to housing from other programs. It should also monitor the results achieved with these funds against its stated objectives.

Indian and Northern Affairs Canada's response. Agrees.

Community housing plans are not used as intended

- 6.59 Under the 1996 housing policy, participating First Nations are required to develop multi-year community housing plans that link housing funds and programs with training, job creation and work opportunity programs, and economic development activities. These housing plans were intended to be the main tools for co-ordinating resources, measuring progress, and strengthening accountability to the government and the community. They were also intended to support federal funding.
- 6.60 The premise of the 1996 policy was that the community housing plans would help First Nations deal with the shortage of adequate housing on reserves. However, we found that they are not being used as intended under the policy. For example, the Department is not reviewing the plans adequately against its own established criteria. In one region, although the

plan indicated that the community would not be contributing funds toward the construction of houses, the region informed headquarters that this community would be contributing more than \$400,000.

- **6.61** We also found that the Department does not adequately monitor the implementation of housing plans. In the case just noted, the plan indicated that nine houses would be built in 2002–03. We visited this community in October 2002 and were told that no houses had yet been built and none were planned. Departmental officials were unaware of the situation.
- **6.62** The community plans are not used to co-ordinate and allocate federal funding. The Department considers them simply a planning tool for individual First Nations. It continues to use the planning documents in place before the 1996 policy to allocate and administer housing assistance. We also noted that the community plans are not shared with CMHC.
- 6.63 Several First Nations told us that they cannot fully implement their housing plans due to insufficient resources. The Department also informed us that it does not have sufficient resources to properly manage the housing program. It claimed that additional staff are needed to help provide regional offices with greater capacity to better manage the housing program, particularly to adequately review and monitor community plans. However, the Department did not demonstrate that the additional resources needed to properly manage its housing program could not be funded from within its overall annual budget of over \$5 billion.
- **6.64** Recommendation. Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation, in consultation with First Nations, should ensure that community housing plans are used as intended by the 1996 housing policy.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC agrees with this recommendation and is willing to support First Nations and Indian and Northern Affairs Canada in their efforts to develop and implement a community planning process that meets the intent of the 1996 housing policy.

In its supportive role in the planning process, CMHC provides access to information on its programs and related services to both the Department and First Nations to allow for possible inclusion in the plans. Program funding limits and eligibility criteria restrict the availability of CMHC programs to certain communities in a given year.

CMHC internal controls for subsidy payments are weak

6.65 CMHC is spending about \$13 million annually to administer on-reserve housing assistance. We expected that it would have in place internal controls and management practices to ensure that new housing projects are properly approved and constructed and that previously approved projects comply with operating agreements.

- 6.66 We found that new housing projects are properly approved but the process is lengthy, so most projects do not start until late in the fiscal year. During the construction period, CMHC ensures that inspections are done to measure progress before releasing funds, and it uses audited reports to verify that the projects were delivered within budget. Many First Nations told us that "CMHC houses" are of better quality than "band houses," which are generally financed with departmental funds.
- **6.67** Following construction, CMHC administers housing subsidies in accordance with the operating agreement. A key component of this process involves ensuring that its subsidy payments are accurate. Each time a loan is renewed, CMHC must adjust its subsidy payments to reflect the new interest rate. This adjustment should occur within one month of the loan's renewal date and be properly reviewed and approved.
- 6.68 We found several instances in which CMHC had not adjusted the subsidy payments in a timely manner. In one region, although a First Nation was eligible to receive subsidy assistance, it took CMHC 37 months to start making payments. In another region, CMHC failed to adjust the subsidy to two First Nations after they had renewed a number of loans between 1999 and 2002. This situation continued for as long as 32 months and resulted in overpayments of almost \$300,000. At the end of our audit, CMHC had not yet recovered this money.
- 6.69 As part of the loan renewal process, First Nations are required to solicit three interest rate quotes to ensure that the rate they receive is competitive. According to CMHC guidelines, CMHC subsidy payments should be calculated based on the lowest quote. However, we found several examples where CMHC had calculated and advanced subsidy payments based on the rate chosen by the First Nation, without assurance that the First Nation had solicited three quotes as required or that it had chosen the lowest of the three. This increases the risk of an incorrect subsidy payment.
- 6.70 A recent CMHC internal audit identified similar control weaknesses. Specifically, the audit noted that controls were not in place in all regions to ensure that loan renewals are processed in a timely manner. Of the 384 loans in the audit sample, 94 loans (24 percent) had been processed at least four months past the loan renewal date, and 40 loans (10 percent) had been processed at least 11 months past the loan renewal date.
- 6.71 The internal audit also identified a lack of controls in some regions to ensure that adjustments are accurate. Of the 384 loans in the audit sample, 17 loans (four percent) contained errors in the calculation of adjustments. The error amount for one loan was about \$44,000.

CMHC has difficulty ensuring that First Nations comply with operating agreements

6.72 Project operating agreements are the key documents that define the terms and conditions associated with CMHC funding to First Nations recipients. We found that First Nations had difficulty complying with some

key requirements in the agreements, and there was little, if any, remedial action. The following are some examples of non-compliance.

- Many First Nations either did not collect rent from their members or collected an amount lower than agreed with CMHC.
- Many First Nations either did not adequately fund their replacement reserve (see Exhibit 6.2) or spent money from the fund without CMHC's approval. The Corporation's internal audit found that in 129 of the 167 files reviewed (77 percent), First Nations housing projects had replacement reserves that were not fully funded. The audit further pointed out that in 28 of these 129 files (22 percent), the correspondence CMHC sent to the First Nation did not address the lack of replacement reserve funding or there was no correspondence following the financial statement review.
- Some First Nations did not submit their audited financial statements within four months of the fiscal year end.
- In several cases, client selection criteria or project data reports were not
 provided. The selection criteria and the information in the project data
 reports would help CMHC determine whether housing is actually being
 targeted to low- and moderate-income families in communities.
- Some First Nations' auditors did not confirm that the First Nation had requested and obtained evidence of the incomes of clients paying rent according to a rent-to-income scale, and some auditors confirmed that First Nations had not obtained this information.
- 6.73 We are concerned about weaknesses in internal controls and management practices for subsidy payments and about the non-compliance with operating agreements. CMHC informed us that corrective action has been taken or is planned to address these issues. As part of this corrective action, the Corporation needs to find practical ways to help First Nations meet their obligations in the operating agreements while meeting its requirements to properly manage the program.
- **6.74** Recommendation. Canada Mortgage and Housing Corporation should strengthen its internal controls for subsidy payments and, in consultation with First Nations, ensure compliance with operating agreements.

Canada Mortgage and Housing Corporation's response. CMHC agrees with this recommendation. The audit findings confirm the results of the CMHC internal audit. Efforts are underway to address the control weaknesses, including those related to subsidy payments. For overpayments of subsidy, CMHC is investigating the extent of the issue and is developing, with the First Nation, a repayment schedule that ensures the First Nation is not subject to any undue financial hardship. The focus will also be on ensuring compliance with operating agreements and ensuring that First Nations possess the necessary capacity to fulfill their responsibilities under the agreements.

Lack of good information on spending and results

- The information to manage on-reserve housing assistance and measure the results achieved is inadequate and is not shared consistently between the Department and CMHC. The Department collects information from First Nations about the adequacy of their housing stock and the number of houses built and renovated. However, the necessary steps to ensure the quality of this information are not taken. In addition, the criteria for determining whether a house is adequate or inadequate are vague, leading to different interpretations. CMHC requires project-related information from First Nations to monitor housing projects and guide the disbursement of funds. It also carries out periodic inspections of a sample of subsidized houses in recipient communities. However, this information is not shared with the Department.
- We also found that the Department and CMHC rarely use this information to manage housing assistance and assess results. For example, they do not normally use it as a basis for allocating funds to First Nations. Instead, the core funding for housing is allocated mainly on the basis of population.
- The Department and CMHC have not defined a common basis that First Nations could use to report financial information. CMHC provides First Nations with a detailed format for financial reporting and requires their auditors to provide an opinion based on that format. In contrast, the Department requests First Nations to provide a summarized level of financial information based on generally accepted accounting principles. In this situation, the Department and CMHC cannot assess a specific First Nation's overall financial situation related to on-reserve housing.
- The Department and CMHC consider audited financial statements to be a key control for monitoring how First Nations use federal funds. However, we noted that several auditors qualified their reports or even declined to provide an opinion. In addition, while CMHC uses First Nations' audited financial statements to assess the viability of housing projects that it subsidizes, the Department does not typically review these statements to manage its housing program.
- Recommendation. Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation, in consultation with First Nations, should define, collect, and use reliable information to manage on-reserve housing assistance.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC agrees with this recommendation and will work with Indian and Northern Affairs Canada and First Nations to streamline reporting requirements, to the extent possible, taking into consideration that CMHC is a Crown corporation bound by separate policy and legislation that has an impact on reporting requirements and the nature and financing of its programs.

Compliance with governing authorities

The Department needs Treasury Board approval for its program authority

- 6.80 We expected that the Department would have clear authority governing the housing program and would comply with it. However, we found that the existing authority had ambiguities and that the Treasury Board had not approved program terms and conditions resulting from the 1996 policy. This affects the Department's and First Nations' understanding of the program.
- 6.81 We observed that many of the terms and conditions of the 1996 housing policy applied by the Department differ from those of the housing program that the Treasury Board originally approved in the 1980s. Yet, the Department did not seek approval from the Board before implementing the changes called for in the policy.
- The 1996 policy is largely based on a perceived need to remove some of the key limitations on funding set in the 1980s, because they were impeding further improvements to on-reserve housing. Given the difficulties in attracting non-government sources of funds, the subsidy per construction or renovation was often the only source of funds to build or renovate houses. This resulted in houses inappropriate to household size or needs. The Department also considered that funding only the capital costs under its housing program was not encouraging First Nations to look at other issues related to housing, such as the need to properly finance houses, insure them, and maintain them in good condition. Therefore, under the 1996 policy, the Department expanded the range of housing costs eligible for subsidy beyond those initially approved by the Treasury Board. The subsidy could now cover insurance, interest on borrowed funds, or general administration of housing stock. To expand the range of eligible expenses, the Department transferred funds from its capital program without seeking the approval of the Treasury Board.
- 6.83 Program authority is important in implementing the policy. Although the terms and conditions approved in the 1980s were not rescinded, their application in the context of the 1996 policy is ambiguous as little guidance was provided to regional offices on the policy's application. During our visits to the Department's regional offices, we noted that interpretations of what the 1996 housing policy covered varied. Some officials stated that the policy covered only the funds provided when a First Nations community plan was approved. Others claimed that the policy covered all departmental housing funds but was valid only for the period covered by a plan—that is, five years. In our view, officials will have difficulty implementing a policy if they are not sure what it entails. Accordingly, any uncertainties in interpretation need to be resolved.
- **6.84** Recommendation. Indian and Northern Affairs Canada should seek approval from the Treasury Board for the terms and conditions of the 1996 housing policy. The Department should provide its regional offices with sufficient guidance and training to ensure that the policy is properly understood and applied consistently.

Indian and Northern Affairs Canada's response. Agrees.

The Department is not consistently applying its shelter allowance policy

- 6.85 Like other "basic needs" allowances, shelter allowance, a component of social assistance, is generally provided according to the benefit rates and eligibility criteria set by the provinces. The shelter allowance further subsidizes the cost of First Nations housing. To ensure that its social assistance program did not duplicate the funding that First Nations receive through federal housing programs, the Department established a policy on shelter allowances in 1990. The conditions under which a community can receive a shelter allowance for a social assistance recipient living in a particular house are as follows:
 - The house must not have been constructed solely with government funds.
 - The house must be subject to loan repayments.
 - The community customarily must collect rent for the house, whether or not it is occupied by someone receiving social assistance.
 - The amount of rent must be reasonable in terms of household needs, size, the condition of housing, and prevailing community rental practices.
- 6.86 The 1990 shelter allowance policy was drafted as an interim policy to address certain on-reserve housing conditions, pending the introduction of a new housing policy. During the 1990s, CMHC's section 95 program generated new demands for shelter allowance funding from First Nations in different regions at different times. A region's ability to respond to the demand depended on the availability of funds. According to the Department, some regions could not pay the shelter allowance to First Nations communities because of lack of funds. As a result, the interim policy was not being applied consistently and equitably across the country. Although the Department recognized the problems with the interim policy in 1997, at the end of our audit the policy had not yet been updated.
- 6.87 According to the Department, more funding for certain regions would be required to fully apply the interim policy on shelter allowance. We noted that a preliminary assessment of the financial implications of introducing the shelter allowance universally in one region concluded that an additional \$20 million would be needed annually for that region. The Department estimated the additional cost of fully applying the policy nationally to be \$40 million to \$65 million a year.
- **6.88** Recommendation. Indian and Northern Affairs Canada should evaluate its interim policy on shelter allowances and approve a final policy with necessary changes resulting from the evaluation, while taking into account approved funding levels.

Indian and Northern Affairs Canada's response. Agrees.

Information for Parliament

Parliament is not receiving complete information

6.89 The Department's reporting to Parliament on costs, program performance, and results of on-reserve housing is incomplete. Accordingly, parliamentarians have not been getting a complete picture of the housing situation on reserves and what is actually being achieved with departmental and CMHC funds. Our review of the Department's Estimates documents for the past 10 years suggests that fundamental information is missing. Exhibit 6.3 summarizes our assessment of the completeness of the housing information that the Department has reported to Parliament.

6.90 Although CMHC spends a significant amount of money each year (\$87 million in 2000–01) to support on-reserve housing, the Department does not include these figures when it reports total housing expenditures. However, it does include construction and renovation activities funded by

Exhibit 6.3 Completeness of housing information reported to Parliament by Indian and Northern Affairs Canada

Reporting criterion	Current reporting in departmental performances reports	Suggested reporting for departmental performance reports
Organizational context and strategic outcomes are clear	Housing is identified under the high-level strategic outcome of "Strong Communities, People and Economies."	Describe the difference that federal assistance is making in addressing the critical housing shortage.
	Other partner's contribution to housing is not identified.	 Identify other partners involved in housing, namely CMHC and First Nations, and their contribution to results achieved.
Performance expectations are clear and concrete	There is no clear explanation of how housing contributes to strategic outcome, including failure to identify an objective for the housing program.	 Identify an objective for the housing program. Identify strategies to achieve performance expectations.
	There is no description of strategies to achieve performance expectations.	
Key results are reported against expectations	Results achieved are not reported against all performance expectations. There is no discussion of challenges faced in achieving results.	 Report results against all performance expectations. Discuss challenges faced in achieving results.
	There is no discussion of CMHC expenditures or contribution to results achieved.	Identify CMHC contribution and expenditures for housing.
Reliability of performance information is supported	Department asserts that housing information is "very reliable." However, our audit found that reliability of housing information is questionable.	Provide a more balanced discussion of quality and sources of housing information.
Use of performance information is demonstrated	The Department has not shown that it uses results information in managing its housing	Discuss how results information is used in managing the housing program.
asmonstrated	 Lessons learned or plans to improve results are not identified. 	Identify lessons learned and plans to improve results.

Source: Departmental performance reports from 1991–92 to 2001–02 and April 2002 Report of the Auditor General, Chapter 6, A Model for Rating Departmental Performance Reports

CMHC in reporting on the volume of housing activity. We also noted that the Department's reported housing expenditures omit at least \$109 million that it contributes annually toward housing through its social assistance program and reallocation of funds from other activities. This reporting practice significantly understates total federal expenditures and creates an incomplete picture of the results achieved with the reported expenditures. Our estimate of \$3.8 billion spent over 10 years could not be derived from the Department's and CMHC's reports to Parliament.

- 6.91 In reporting results to Parliament, the Department has consistently used the total number of houses, the percentage of adequate houses, and changes from the previous year as its main performance indicators. The Department asserts that housing conditions are improving by stating that, at the end of March 2001, the total number of houses had increased by 1,412 units during the past year and reached 89,897 units, and the percentage of adequate houses on reserves had increased to 56 percent, from 50 percent at March 1996.
- 6.92 In our view, the information provided does not tell the whole story. Although the total number of houses has increased, our analysis shows that the average number of houses constructed since adoption of the policy in 1996 actually declined by 30 percent, to 2,485 units a year from the 3,522 units a year in the five years before 1996. Moreover, the overall improvement in the percentage of adequate houses between 1996 and 2001 is almost entirely attributable to new construction rather than improvements to existing housing.
- 6.93 We also noted that the Department's reporting to Parliament does not state the objective of its housing activity; nor does it say what difference its housing assistance makes in addressing the critical housing shortage.
- 6.94 Recommendation. Indian and Northern Affairs Canada, in co-operation with Canada Mortgage and Housing Corporation, should improve its reporting to Parliament. It should clearly articulate its expected results; report on costs, program performance, and results; and clarify how the reported outputs have an impact on the critical housing shortage.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC agrees with this recommendation. The Corporation reports on-reserve expenditures separately in its Annual Report, which is submitted to the Treasury Board and tabled in Parliament. It also submits information to Indian and Northern Affairs Canada for reporting purposes. CMHC will work with the Department, the lead agency, to ensure that the information is available to it, to produce a complete report of all federal on-reserve housing funding to Parliament.

Conclusion

- 6.95 We found that despite numerous studies about on-reserve housing and a significant investment of federal funds, a critical shortage of adequate housing to accommodate a young and growing on-reserve population continues to exist. The audit identified a number of factors that impede progress. One of these is that the main parties involved do not agree on their roles and responsibilities. In particular, there is a long-standing disagreement between the government and many First Nations on the rationale for federal assistance. Further, the two main federal entities providing assistance have not defined, jointly or separately, what their assistance is intended to achieve in terms of addressing the critical housing shortage; nor have they defined a time frame in which to achieve it. In addition, the Department's and CMHC's programs and funding mechanisms to support on-reserve housing are complex and need to be streamlined, with clear assignment of responsibility for results.
- 6.96 The Department and CMHC need to strengthen the management of their housing programs. Although some corrective action is being taken or planned, we identified a number of areas where program performance and compliance with authorities can be improved. These are reflected in our recommendations.
- 6.97 The Department, CMHC, and First Nations need better information about on-reserve housing costs, program performance, and results to help them make informed decisions about the allocation of scarce resources and to strengthen accountability for the money spent and results achieved. Currently, Parliament is receiving incomplete information on the housing situation on reserves and the difference that federal assistance is making in addressing the critical housing shortage.
- **6.98** We recognize that impediments and long-standing issues affecting on-reserve housing continue to exist and that addressing them requires the political will and good faith of all parties. However, we believe that a more focussed federal approach to assistance is needed to address the critical shortage of adequate housing.

Indian and Northern Affairs Canada's overall response. Indian and Northern Affairs Canada agrees with the recommendations made in Chapter 6 and will co-operate with the First Nations, the Canada Mortgage and Housing Corporation, and the other federal departments concerned to develop relevant strategies for improving housing conditions on reserves.

Canada Mortgage and Housing Corporation's overall response. CMHC, as Canada's housing agency, is committed to improving First Nations housing on reserves through the delivery of specialized housing programs and related capacity development activities. In addition to the programs noted in this chapter—that is, the section 95 program and the Residential Rehabilitation Assistance Program, CMHC delivers a number of other programs and related

services to First Nations communities and housing institutions. Under current funding levels, the ability of CMHC to have a significant impact on housing conditions on reserves through direct subsidies is limited. CMHC's responses to the recommendations are included in the chapter.

About the Audit

Objectives

Aboriginal issues are one of the Auditor General's main focus areas. Accordingly, our audit examined the delivery of on-reserve housing programs that influence the social, economic, and environmental conditions faced by Aboriginal people and their communities.

The objectives of the audit were to determine whether roles, responsibilities, and expected results were defined; management had assurance on the performance of the programs and was taking corrective action as necessary; authorities were in place and complied with; and appropriate information was provided to Parliament.

Scope and approach

Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation (CMHC) are the two main federal organizations that assist First Nations in meeting their on-reserve housing needs. The audit focussed on their activities and results related to on-reserve housing. It covered primarily the programs specifically developed to address this issue and included other supporting programs in these two organizations where relevant. We reviewed policy developments and analyzed information covering the 10 years since our last audit. We also examined (for 2000–01) the systems and practices that the Department and CMHC use to transfer and monitor federal funding to 30 First Nations, including reporting on costs and results.

The audit team carried out interviews with departmental and CMHC managers and staff and reviewed relevant documents at the Department's and CMHC's headquarters and in six regions (Atlantic, Quebec, Ontario, Manitoba, Alberta, and British Columbia). Although we did not audit the activities carried out by First Nations and their organizations, we did seek their views on housing matters. The team also visited eight First Nations communities. The community visits involved discussions with political leaders and housing managers as well as general observation of housing conditions. We also sought the views of national and regional First Nations organizations, including the Assembly of First Nations (AFN), the Assembly of Manitoba Chiefs, and the Saskatchewan Federation of Indian Nations, and we reviewed the documentation provided by them.

Criteria

Our audit was based on the following criteria:

- Clear authorities would be in place and complied with.
- Roles, responsibilities, and expected results would be clearly defined.
- The allocation of resources would be consistent with program objectives.
- Programs would be implemented with due regard to efficiency and economy.
- Appropriate information on results and costs would be provided to Parliament.

Related audit work

See also December 2002 Report, Chapter 1, Streamlining First Nations Reporting to Federal Organizations.

Audit team

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Appendix A Chronology of key studies/reports related to on-reserve housing over the past two decades.

Year	
1983	The report of the Special Committee on Indian Self-Government, also known as the Penner Report, concluded that economic development of lands and resources on reserves was inadequate. The Committee recommended that, until claims could be settled and an adequate land and resource base provided, First Nations be provided with substantial funding to enable them to build up their community infrastructure, including water, sewage, and housing.
1985	The Report of the Task Force on Program Review , the Nielsen Task Force Report, noted that on-reserve housing continued to be among the poorest in Canada, as evidenced by the fact that one quarter of units were in need of major renovation and one third of units were overcrowded. The Task Force estimated that at least \$500 million was required to address the housing shortage. The report recommended, among other things, that housing assistance be provided on the basis of need, and not on the basis of right.
1990	The Standing Committee on Aboriginal Affairs Report to the House of Commons, Unfinished Business: An Agenda for all Canadians in the 1990's, noted that the critical need for adequate housing on reserves continued to be one of the most difficult problems facing Aboriginal people and the government. The Report qualified the housing situation of many First Nations as a crisis—a crisis that has an impact on other concerns such as health and education.
1991	In an Office of the Auditor General chapter on Indian and Northern Affairs Canada, the Office concluded that the annual supply of houses on reserves was not able to meet the normal replacement demand and much of the older housing on reserves was among the poorest in Canada. It further concluded that the Department had no plan for addressing the existing shortage. The Office recommended that the Department redirect its existing resources and explore a new approach to permitting and encouraging private capital investment in the on-reserve housing market.
1992	The Standing Committee on Aboriginal Affairs Report to the House of Commons, A Time for Action, concluded that there was a crisis in Aboriginal housing due in large part to federal budget reductions, and that addressing the onreserve housing crisis was an essential precondition to solving many health and social problems. Specifically, the report noted that crowding rates were considerably higher than the Canadian figure and that the gaps were increasing. It further noted that only half of the 70,000 houses on reserves were adequate and suitable for living in. The report contained 14 main recommendations related to housing. These included an injection of funds to address the housing shortage and health and safety deficiencies, and clarification of the government's responsibility and role related to onreserve housing.
1993	In a follow-up report on Chapter 14 of the 1991 Report, the Office of the Auditor General agreed with the recommendation made by the Standing Committee on Aboriginal Affairs that the government bring the Department's review of the on-reserve housing program, begun in 1975, to an immediate conclusion and present recommendations to Cabinet for a new on-reserve housing policy. The report asserted that the issue of a housing shortage was complex and that its resolution would require consultation and action by all the affected parties.
1996	The report of the Royal Commission on Aboriginal People concluded that Aboriginal housing was sub-standard and was threatening the health and well-being of Aboriginal people. Citing the living conditions as intolerable, the report suggested that acute risks to health and safety be treated as an emergency and targeted for immediate action. The report further noted that over one quarter of the houses on reserves needed major repair or replacement. The report contained 11 recommendations related to housing, including, among other things, the need to address adequate housing shortages over a 10-year period, and the need for an injection of additional funds, clarification of treaty rights to housing, increased control and jurisdiction over housing, the establishment of First Nation institutions, shared responsibility for housing costs, and increased co-operation between First Nations and the government.
1998	In Gathering Strength, Canada's Aboriginal Action Plan , the government stated that one of the most important elements of people's sense of well-being is access to good-quality housing. It recognized housing as a priority area and planned to make increased investments, in combination with existing resources, to accelerate implementation of the new on-reserve housing policy by First Nations.

Source: Cited publications

Appendix B Compressive hearing programs - Indian and Yorthern Affairs Canada and Canada Mortgage and Housing Corporation

		Indian and Northern Affairs Canada	ıda	Canada	Canada Mortgage and Housing Corporation (CMHC)	ition (CMHC)
Policy/ Program ¹	1983 policy	1996 policy	Ministerial Ioan guarantee	Section 95: two percent program	Section 95: "deep subsidy" program	Residential Rehabilitation Assistance Program (RRAP)
Number of First Nations or units serviced	About 146 First Nations (at 31 March 2001) ²	About 400 First Nations (at 31 March 2001)	591 First Nations (since inception of the program in 1966)	About 18,000 units	About 4,000 units	About 9,577 units (from 1992 to 2001)
Key Features	Construction. Subsidy between \$19,000 and \$45,000 per unit, depending on location. Renovation: Subsidy averaging \$6,000 per unit. Funding Allocation: Funding is allocated mostly on the basis of population. Core budget set in the early 1990s.	Level and allocation of funding remain unchanged, however, funding can be used to support a broad range of housing activity, including construction, renovation, insurance, and maintenance.	The Minister guarantees repayment of a loan to an approved lender under the National Housing Act in the event of default by a First Nation or an individual. In the event of reimbursement to a lender, the Department recovers funds from the First Nation.	Subsidy is provided monthly over the duration of the loan to reduce the interest rate on housing capital costs to two percent. Rent is charged on a rent-to-income scale, up to a maximum.	Deep subsidy is provided monthly over the duration of the loan to cover the difference between loan payments and project operating benchmarks and minimum revenue contribution. Minimum revenue contribution is required (funded through collection of rent, other First Nations funds, or from Department's Social Assistance Program if occupant is a social assistance recipient).	Financial assistance is provided to repair substandard homes to a minimum level of health and safety or improve accessibility for disabled persons. Assistance has forgivable and repayable portions, depending on cost of eligible repairs, household income, and location of First Nation. Maximum forgivable assistance ranges from \$12,000 to \$18,000.
Eligibility	All First Nations not under the 1996 housing policy.	- Development of housing programs and policies to respond to local needs and opportunities Development of multi-year housing plans that set out specific tasks and identify required resources.	- Housing projects must be viable For individual loans, satisfactory financial reputation and ability to repay loan First Nation must be well managed and operating without a significant deficit, have a satisfactory record of meeting financial obligations, and have a satisfactory previous record for completing housing projects.	New Projects: As of 1997, all new construction is under the deep subsidy program. Existing Projects: Operating in accordance with project operating agreements.	New Projects: - Access to unencumbered land Eligible for a Ministerial Loan Guarantee from the Department Current projects operating in accordance with project operating agreements. Existing Projects: - Operating in accordance operating agreements.	First Nations or individual homeowners with a limited income whose house is older than five years and lacks basic facilities or is in need of major repair.

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Appendix B (continued)

Delivery requirement ³	Annual comprehensive funding arrangements Construction: Prepare and carry out project implementation plans, including scope, schedule, and costs. Compliance with code requirements. Renovation: Similar requirements defined. Multi-year block funding arrangements Construction: Prepare and carry out approved capital plan, including scope, schedule, and costs. Compliance with applicable regulatory requirements. Renovation: No requirements.	Annual comprehensive funding arrangements Construction. Prepare and carry out project implementation plans, including scope, schedule, and costs. - Compliance with code requirements. Renovation: Similar requirements defined. Multi-year block funding arrangements Construction: Prepare and carry out approved capital plan, including scope, schedule, and costs. - Compliance with applicable regulatory requirements. Renovation: No requirements.	- Loans will be used for housing Environmental assessment of subject property Formal commitment by First Nation to reimburse Department in event of guarantee payout.	New projects: As of 1997, new commitments made under the "Deep Subsidy" program. Ongoing subsidies: - Charging of rent in accordance with income Annual verification of tenant income Loan payments in full and on time Loan payments to freserve Allocation of units to maintain viability of project and program objectives Client visits and cyclical inspections periodically undertaken by CMHC.	New projects: - In accordance with approved plans and specifications and in compliance with applicable building codes. Ongoing subsidies: - Loan payments in full and on time Funding of minimum revenue contribution, replacement reserve, and operating reserve Use of client selection criteria Client visits and cyclical inspections periodically undertaken by CMHC.	- Complete all mandatory repairs to property to provide minimum levels of health and safety and extend useful life to a minimum of 15 years Adopt occupancy and building maintenance standards acceptable to CMHC.
Reporting requirements	- Five-year Capital Plan (updated annually) Housing Conditions Annual Report Housing Totals Annual Report Certificate of Completion for new construction. ⁴	- Five-year Capital Plan (updated annually) Housing Conditions Annual Report Housing Totals Annual Report Certificate of Completion for new construction Annual Update to Community Housing Plan.	Lenders are required to submit the following reports to the Department: - Guaranteed Loans Terms and Conditions Report Yearly Status Report of Guaranteed Loans.	- Annual Project Data Reports Annual audited financial statements (including confirmation that verification of incomes has been performed).	- Audited statement of final capital costs when construction is completed Annual audited financial statements.	- Inspections or invoices for work completed prior to CMHC payment Final inspection report.

 Departmental and CMHC programs are not mutually exclusive. For instance, First Nations can use departmental subsidies in support of departmental ministerial loan guarantees. However, CMHC RRAP subsidies cannot be used to support the renovation of section 95 units.
 The figure was derived from the number of First Nations that reported on housing conditions to the Department in 2001.
 The interpretation and enforcement of some delivery requirements vary from region. There is one type of annual funding arrangement and four types of multi-year block funding arrangements (Alternative Funding Arrangements, Financial Transfer Agreement, Indian and Northern Affairs Canada/First Nations Funding Agreement and Canada/First Nations Funding Agreement).
 Requirements for certificates of completion depend on the type of funding arrangement used and the terms and conditions attached to any additional housing allocations. Notes:

Departmental and CMHC documentation Source:



Report of the Auditor General of Canada to the House of Commons—April 2003

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2003



Report of the Auditor General of Canada to the House of Commons

APRIL

Chapter 7
National Defence—
Environmental Stewardship of Military Training and Test Areas







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Chapter 7

National Defence— Environmental Stewardship of Military Training and Test Areas







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The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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Chapter

National Defence

Environmental Stewardship of Military Training and Test Areas

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.	

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National Defence

Environmental Stewardship of Military Training and Test Areas

Main Points

- 7.1 The Department of National Defence has areas that have been set aside for testing and for training military personnel. While it is expected that the nature of these activities can be damaging to the environment, it is also understood that the military must continue its training. Nevertheless, National Defence must comply with federal legislation protecting the environment. We found that in some cases, training-related activities did not comply with certain federal legislation, indicating that the Department did not use due diligence in those cases.
- 7.2 The Department needs to better demonstrate its environmental stewardship of Crown lands by showing that it has integrated environmental concerns into its training and test activities and taken timely action to mitigate the impacts of these activities. It has a protocol to address environmental concerns, developed in 1996, that it has started to implement but it still needs to take action on mitigation, restoration, monitoring, and follow-up plans.
- 7.3 In some cases, National Defence has continued to train on lands identified as sensitive or unsuitable for military training, even though it has known as far back as 1988 that some areas were unsuitable. The Department needs to address the use of stressed and overused areas. An overall approach to how land is used for training is needed to ensure the sustained use of training and test areas.
- 7.4 The Department does not have an action plan for managing sites potentially contaminated with energetic material from live firing of munitions. Recent research has shown that there is a potential for contamination from the live firing of munitions. The Department has begun work to identify sites that are contaminated and it needs to continue this work so it can determine what action it must take to deal with these sites. It also needs to resolve some confusion in the categorizing of contaminated sites and in determining its liabilities for them.

Background and other observations

- 7.5 The Canadian Forces must be ready to defend Canada and Canadian interests while contributing to international peace and security. In order to be ready, it has bases across the country where it trains personnel and tests equipment and munitions.
- 7.6 The military needs to do training and testing activities in conditions that are as realistic as possible. These activities can often be damaging to the

immediate environment. Therefore, it is the responsibility and challenge of National Defence to ensure that damage is mitigated and to manage the land so training activities can continue in the future. National Defence has committed to practising sustainable development and protecting the environment as it conducts its activities.

7.7 The sustainable development concept was first defined in 1987 by the Brundtland Commission Report of the World Commission on Environment and Development. It is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

The Department has responded. The Department is satisfied with the accuracy of the chapter but does consider that some of the case studies only serve to illustrate what happened in the past. The Department has committed to reviewing its progress in the areas noted in the chapter and to continue work already underway.

Introduction

- 7.8 National Defence must comply with federal statutes and regulations and government policies protecting the environment. Furthermore, the Department has said that it will meet or exceed the letter and the spirit of federal legislation and, where appropriate, provincial, municipal, and international standards.
- 1.9 Like all government departments, National Defence must comply with federal environmental protection legislation—for example, the Fisheries Act, the Canadian Environmental Assessment Act, and the Canadian Environmental Protection Act (1999). Under the Canadian Environmental Assessment Act, the environmental impacts of proposed projects involving certain physical operations, construction, modifications, or other work must be assessed so that decisions can be made about how to proceed. However, National Defence is not required by the Canadian Environment Assessment Act to do an environmental assessment each time it conducts routine military activities or when testing weapons on its designated land.
- 7.10 The federal Code of Environmental Stewardship, first released in 1992, requires departments to consider environmental concerns in its operations; meet or exceed the letter and the spirit of all federal environmental laws; and acquire, manage, and dispose of lands in a manner that protects ecologically significant areas. The Treasury Board Secretariat's Environmental Guide for Federal Real Property Managers says it is government policy to acquire, use, and dispose of real property in a manner consistent with the principle of sustainable development. National Defence therefore needs to adhere to the principle of sustainable development as it conducts its activities on land used for training and testing.
- 7.11 In its departmental performance report, National Defence reports annually to Parliament on how well it is doing against specific targets in its sustainable development strategy.
- 7.12 The Department's Environmental Protection and Stewardship Policy calls for the protection of "assets held in trust." It states that National Defence will demonstrate respect for the environment in all its activities by implementing a sustainable development strategy, conducting environmental assessments, and exercising due diligence. The policy requires individuals to exercise due diligence by knowing and obeying federal environmental laws and regulations, exercising caution, preparing for risks that a thoughtful and reasonable person would foresee, and responding to risks and incidents as soon as practicable.

The Canadian Forces has been entrusted with large areas of land

7.13 In total, National Defence has about 18,000 square kilometres of land to use for training and other military activities—over three times the size of Prince Edward Island. Training and test areas are used by the Army and the Air Force for live firing of munitions and for training. The Navy conducts its training and testing in waters off the Atlantic and Pacific coasts.



National Defence must train under realistic conditions but still comply with environmental protection legislation.

Previous audits have reported on environmental management concerns

7.14 This is our second audit of National Defence that has focussed on the environment since the publication of the Department's first Sustainable Development Strategy in 1997. Our September 1999 Report, Chapter 13, Hazardous Materials: Managing Risks to Employees and the Environment, examined how National Defence managed the risks of hazardous materials such as flammable substances, corrosive products, and ammunition. Our 2001 follow-up audit found that while the Department had taken steps to address our concerns, it had carried out few recommendations fully and had revised or extended many of the completion dates for its action plans.

Focus of the audit

7.15 This audit focussed on the extent to which National Defence shows environmental stewardship of its major land training areas by integrating environmental considerations into military training activities to achieve sustainable training. While the audit focussed primarily on the land activities, we have some observations on air and sea training and testing as well (see About the Audit at the end of the chapter for more details on the audit scope).

7.16 We would expect that a responsible occupier of Crown land such as National Defence would have

- complied with existing laws and regulations when undertaking military training activities,
- identified ranges that are suitable for military training activities,
- developed and implemented management tools to ensure that training activities are undertaken in a sustainable manner, and
- developed a list of sites potentially contaminated by energetic material
 from the live firing of munitions, assessed the risks they pose, and put in
 place a plan to deal with these sites in a timely manner.

Observations and Recommendations

Some training-related activities did not comply with federal legislation

7.17 We found some evidence of non-compliance by National Defence with Fisheries Act provisions designed to protect fish habitat. We also found a case of non-compliance with the Canadian Environmental Assessment Act. We are concerned that the issues represented by the case examples in this chapter illustrate a lack of due regard to the environmental effects of the Department's everyday activities on the training ranges.

7.18 Land cleared and timber sold at Combat Training Centre (CTC) Gagetown appears to have contravened several laws. Up to 7,250 hectares of trees at CTC Gagetown, New Brunswick, were cut between 1995 and 1997 to expand the mounted manoeuvre area (see case study "Erosion at Combat Training Centre Gagetown shows lack of due diligence" on page 5). The tree cutting was not authorized by the Canadian Forest Service as required by the

Timber Regulations (1993) under the Forestry Act. Those regulations applied to that land because of a 1979 memorandum of understanding that gave the Canadian Forest Service responsibility for managing the forests on National Defence land, including the land at CTC Gagetown. CTC Gagetown had severed its relationship with the Canadian Forest Service effective in 1996. However, the 1979 memorandum of understanding was not amended so there was still a legal requirement to obtain the authorization of the Canadian Forest Service before cutting the timber.

7.19 A draft internal audit report in September 2001 identified several weaknesses in the contracting methods used at CTC Gagetown. It indicated that staff did not have the authority to enter into the contracts. It noted that

Erosion at Combat Training Centre Gagetown shows lack of due diligence

The Combat Training Centre (CTC) Gagetown is a primary training area for the Canadian Forces and has been used since the early 1950s. It totals 110,000 hectares, of which 30,000 are cleared for manoeuvres. The land includes 65 lakes, 365 wetlands, and 251 permanent and intermittent streams.

Between February 1995 and May 1997, over 50 contracts were let to clear lands and increase the manoeuvre areas. CTC Gagetown relied on the Treasury Board policy on Accounting for Non-Monetary Transactions in bartering timber rights for stump removal (grubbing) and other deliverables. The contracts called for the grubbing of 8,310 hectares after timber was removed, but departmental estimates show that so far only about 5,600 hectares have been grubbed even though 7,250 hectares of timber were removed.

The value of the contracts let was about \$4 million, but the Canadian Forest Service estimates the value of the timber to be around \$6.7 million. As well, the base found that contractors grubbed in areas where they were not supposed to but did not grub in areas where they were supposed to.

Several sectors have been unavailable for off-road training since they were cleared. Base estimates show that 10 percent to 20 percent of the cleared area will never be suitable for training due to the amount of exposed rock, sedimentation, and soft ground and to the soil's high susceptibility to erosion.

In 1988, an environmental baseline study identified soil erosion and sedimentation on the training area. This was attributed to mass land clearing, improper road construction and maintenance, and military training activities. A review in 2001 again highlighted erosion and sedimentation and damage to the quality of the surface water.

In this case, impacts of sedimentation on the fish habitat can affect salmon spawning by filling natural pools, causing gravel beds to become unstable for spawning, and causing streams to erode their banks—all of which affect aquatic life.

Activities between 1988 and 2001 have aggravated problems identified in the 1988 study. Although vegetation should have been re-established in the newly cleared areas immediately after grubbing, it has not been done. It is estimated that the remaining soil is up to 150 times more susceptible to erosion than dense vegetation cover, and soil loss is estimated at 100 tonnes per hectare in many areas. Some soil erosion protection has been put in place but more is needed.

In 1996, National Defence entered into an agreement with Fisheries and Oceans Canada to assess fish habitat within the training area, initiate restoration, and study methods to permit realistic military training without environmental degradation.

National Defence put forward a remediation plan for CTC Gagetown in November 2001. The proposal asks for \$108 million over 10 years to address problems. The proposal has not yet been approved.

A 2001 internal audit draft report noted weaknesses in the contracting authority, inadequate documentation, and a poor separation of duties. As well, it remains unclear whether an environmental assessment was completed. We found that an assessment was registered in 1996 but the Department could not provide us with a copy. In 2002, National Defence began a further investigation of this matter and concluded there was nothing "to show that any public servant or CF member had knowingly broken the law, or hidden information, or profited personally from the Gagetown expansion." The report, therefore, recommends no further military police investigation.

The Statement of Defence Ethics requires military personnel to be accountable for the consequences of their decisions and actions. Despite findings from an internal audit and the recently completed investigation, there has been no accountability for the environmental impacts of the land clearing activities.

the assistance of Defence Construction (1951) Limited and Public Works and Government Services Canada, while not required, could have been useful in avoiding the problems that arose with the land clearing contracts. The internal audit found no evidence that "the land clearance initiative was either directed or authorized by Army headquarters."

- 7.20 The land clearing activity was consistent with an objective set earlier through the chain of command, but we could not find any authorization for this activity. Even though departmental documents show that senior officers at CFB Gagetown were aware of the clearing being conducted, we did not find evidence that they either formally approved of or halted the activity.
- 7.21 In addition, under the Canadian Environmental Assessment Act an environmental assessment was required for the work on the mounted manoeuvre area. An assessment was registered with the Federal Environmental Assessment Index in 1996, but the Department could not provide us with a copy of the assessment to prove that it was completed.
- **7.22** Erosion and silting of streams at Combat Training Centre (CTC) Gagetown in violation of the Fisheries Act. Silting because of land clearing activities in 1996 at CTC Gagetown affected a salmon spawning stream, contrary to subsection 35(1) of the Fisheries Act (see case study "Erosion at Combat Training Centre Gagetown shows lack of due diligence" on page 5). The activities would not have been contrary to that subsection if they had been authorized by the Minister of Fisheries and Oceans. However, there is no indication that National Defence obtained authorization for the work from the Minister of Fisheries and Oceans.
- 7.23 Erosion that has led to silt entering streams at CTC Gagetown has been aggravated by land clearing and the movement of vehicles over land that lacks vegetation. The primary responsibility for preventing silt from entering streams on military sites rests with National Defence. National Defence is required to conduct operations and maintain land according to applicable environmental laws, and it may not have demonstrated due diligence in this instance. Fisheries and Oceans Canada and Environment Canada are responsible for enforcing the fish habitat protection and pollution prevention provisions of the Fisheries Act. Environment Canada's responsibility for enforcing those pollution prevention provisions results from a memorandum of understanding it has with Fisheries and Oceans Canada. If the Minister of Fisheries and Oceans becomes aware of any work that is likely to damage fish habitat in a training area, he may ask that National Defence provide information about the work, after which the work could be modified or cancelled.
- 7.24 Silt is still entering the streams. To date, Fisheries and Oceans Canada has chosen to encourage National Defence to comply with the Act by working with it co-operatively rather than resorting to the offence provisions of the Act.



Erosion and damage to streams can affect fish habitat.

- 7.25 Deposit of substances in the course of testing at Nanoose Bay, British Columbia. Lead weights, lithium batteries, and other substances have been deposited since 1965 at Canadian Forces Maritime Experimental and Test Ranges off the coast of British Columbia (see case study "National Defence has not taken action to assess the effect of substances deposited in Nanoose Bay" below). This raises issues of compliance with the fish habitat protection and pollution prevention provisions of the Fisheries Act. Recently, Fisheries and Oceans Canada concluded that materials in the lithium batteries constitute a deleterious substance and the deposit of this material would be in contravention of section 36(3) of the Act if found to be destroying fish habitat. Since 1996, not enough information has been gathered to determine the impacts.
- and again in 1995 at Canadian Forces Station Aldergrove, British Columbia, silt and sediment were discharged into a stream flowing into the Salmon River, an important fish-bearing watercourse (see case study "Silt that damaged fish-spawning beds in Salmon River shows lack of due diligence at Canadian Force Base Aldergrove" on page 8). In the first instance, National Defence personnel had carried out work that violated environmental standards. Fisheries and Oceans Canada considered the incident to be a violation of section 35 of the Fisheries Act, and officials forwarded the matter for prosecution in the fall of 1996. However, the Fisheries Act limits the period in which timely enforcement action can be taken. The Crown did not proceed for several reasons, including the fact that National Defence took action to fix the problem and that the two-year limitation period had almost expired.

National Defence has not taken action to assess the effect of substances deposited in Nanoose Bay,

The Canadian Forces deposited lead weights and lithium batteries during the course of testing activities conducted since 1965 in waters designated as the Canadian Forces Maritime Experimental and Test Ranges off the coast of British Columbia. An environmental assessment of the range was done in 1996 but it did not directly assess the effects of these deposits on fish or fish habitat. Nevertheless, Fisheries and Oceans Canada did not feel there was a significant chemical hazard to fish stocks or a major disturbance to fish habitat. However, it did encourage National Defence to look into the feasibility of reducing and recovering materials deposited as a result of its activities. It expected that National Defence would do a more detailed examination of the effects of depositing materials.

Fisheries and Oceans Canada has received little information about its 1996 concerns. National Defence recently provided it with a draft report, Status of 1996 EA Recommendations, that shows little movement toward addressing the 1996 recommendations of Fisheries and Oceans Canada. National Defence has carried out fewer test activities, which has reduced the amount of material being deposited.

Fisheries and Oceans Canada recently did a more comprehensive review of the 1996 environmental assessment and stated that steps should be taken to assess and mitigate potential environmental damage.

Silt that damaged fish-spawning beds in Salmon River shows lack of due diligence at Canadian Force Base Aldergrove

Between October and November 1994, silt was discharged into a small stream on CFS Aldergrove, British Columbia that flows into the Salmon River, an important fishbearing watercourse off the station.

The discharge resulted from maintenance work on the base near the stream. Sediment was found six kilometres downstream in the fish-spawning beds and was tracked back to CFS Aldergrove. Fisheries and Oceans Canada contacted the Environment Officer at CFB Chilliwack—the base responsible for CFS Aldergrove. This was the first time the CFB Chilliwack Environment Officer had heard of the work, as it had not been authorized by base officials.

Fisheries and Oceans Canada initiated an investigation into the possible violation of section 35 of the Fisheries Act by National Defence. A brief recommending that charges be laid was forwarded to the Crown prosecutor but charges were not pursued, partly because National Defence had taken corrective action and the limitation period had almost expired.

National Defence ordered a summary investigation in February 1995 and concluded that the incident was the result of not following established procedures, a lack of supervision and communication between parties involved at all levels, and poor judgment in the decisions made.

A second incident occurred in May 1995, one month after the summary investigation, on the same watercourse. A Fisheries officer noticed that soil had been piled too close to the stream. Fisheries and Oceans Canada gave a directive to the CFB Chilliwack Environment Officer, who passed it on verbally to the CFS Aldergrove Unit Environment Officer, who indicated that the situation would be addressed immediately. One month later, a Fisheries official on that site noticed that no action had been taken. Upon second notice, National Defence officials responded immediately and restored the area by removing the soil and planting sod. National Defence conducted a summary investigation into this incident and found that insufficient attention, possibly due to lack of knowledge, had been given to environmental concerns, legislation, and regulations.

- In the second instance, the Department was slow to respond to a request by Fisheries and Oceans Canada that it remove soil that was too close to the watercourse. The area was restored after a second request for action.
- Recommendation. National Defence should exercise due diligence by complying with the fish habitat and pollution protection provisions of the Fisheries Act on its test and training areas.

Department's response. The Department and the Canadian Forces are committed to meeting or exceeding the letter and spirit of all federal environmental legislation, including the provisions of the Fisheries Act and the Canadian Environmental Assessment Act. Additionally, the Defence Team is committed to exercising due diligence. This commitment is clearly stated in our Environmental Policy.

The Department will continue to reinforce environmental responsibilities, of which due diligence is a component, through various forums.

Recommendation. National Defence should ensure that appropriate environmental assessments are carried out on all projects in test and training areas for which assessments are required.

Department's response. National Defence will use the communication opportunities afforded by the proclamation of the amended *Canadian Environmental Assessment Act* to ensure that assessment requirements are communicated for all projects, not just those in test and training areas.

Use of tools for environmental stewardship

The Department has a protocol for managing environmental issues and demonstrating environmental stewardship

- 7.30 Routine military activities are not generally subject to the requirements for an environmental assessment under the *Canadian Environmental*Assessment Act. But the Department recognizes that it is accountable for the effects of its activities, and it developed the Manoeuvre Area Planning System (MAPS) protocol in 1996. It calls for environmental studies of test and training areas and for plans to manage environmental concerns.
- 7.31 The protocol outlines how to determine the impacts of training activities on the environment; how to identify sensitive and overused ranges; and how to develop mitigation, restoration, monitoring, and follow-up plans (Exhibit 7.1). The protocol requires the following:
 - a training area inventory of natural resources (sensitive ranges, rare species and habitat, wetlands, archaeological and cultural resources);
 - an assessment of military training activities (infantry, artillery, armour, engineer training);
 - an assessment of the effects of training activities on the environment (nature of effects, magnitude, duration, frequency, cumulative effects including outside training areas); and
 - development and implementation of mitigation, restoration, monitoring and follow-up plans under the direction of the base commander.

Exhibit 7.1 National Defence 1996 Manoeuvre Area Planning System (MAPS) Protocol

- 1. Assessment of impacts—to conduct an environmental study on the impacts of military training activities. Each impact is evaluated for duration, magnitude, and frequency of activity to help determine the priorities for the mitigation plan and the restoration plan.
- 2. Mitigation plan—used to reduce or eliminate the environmental or social effects of training impacts through design alternatives, avoidance and control, scheduling, and other measures.
- **3. Restoration plan**—to return the environment to as close to its natural state as possible or to a state that will sustain a desired level of training.
- **4. Monitoring plan**—to measure the effectiveness of restoration and mitigation activities and to ensure sustainable military training.
- **5. Follow-up plan**—to bring together all of the follow-up requirements from the environmental study and summarize what actions are required during the year, their timing, and where and by whom any results should be reported.

Source: Summary of National Defence 1996 MAPS protocol

- 7.32 The Assistant Deputy Minister for Infrastructure and Environment provided about \$2.5 million for studies of training and test areas, conducted between November 1993 and April 1998, that gave bases
 - a natural resources inventory,
 - an assessment of the environmental impacts of training activity, and
 - recommendations to mitigate impacts.

MAPS needs to be better implemented

- 7.33 Implementation of the MAPS protocol has progressed as far as completing environmental studies that include recommendations. But seven years after the publication of the protocol and almost five years after the completion of the last MAPS study in 1998, plans to address the environmental impacts of routine training activities have not been developed and implemented. We found the following:
 - Although the Assistant Deputy Minister for Infrastructure and Environment issued some communications on implementing MAPS, the requirement to implement the protocol was not clear at all levels.
 - While the initial MAPS studies were funded separately, the remaining work to develop and implement plans must compete for resources as part of the business planning exercise.
 - The Department did no monitoring to follow up on the implementation of recommendations at the bases.
- 7.34 We looked at the study recommendations that had been accepted to see whether any action had been taken. We found evidence that on average, army bases were addressing about one third of the recommendations in whole or in part. The Department informed us that action was being taken on a further one-third of the recommendations, but we were unable to determine their status due to a lack of data.

There are some good examples of environmental management at training and test areas

- 7.35 The Department works with Environment Canada, Fisheries and Oceans Canada, and Natural Resources Canada to find appropriate ways to mitigate the effects of its activities or to prevent damage from occurring where possible. While military activities often have impacts, National Defence has acted to mitigate damage and protect the environment in certain areas.
- 7.36 Use of some training and test areas is restricted at some bases to accommodate environmental sensitivities. For example, training on or near watercourses is limited at certain times of the year to help protect fish and fish habitat. Similarly, fords and bridges have been constructed to minimize damage to watercourses.
- 7.37 In some cases, the presence of National Defence has protected the environment. For example, one of the last remaining areas of natural prairie is located on the Canadian Forces Base–Suffield, Alberta; Environment Canada

and National Defence have agreed to place about 458 square kilometres of this area out of bounds. There is a proposal to make this a national wildlife area.

The approach to using sensitive areas for training has not been consistent

- **7.38** We found that most training areas have identified those ranges that are sensitive, as required in the MAPS protocol. We did not see, however, that action was always taken to manage these areas as environmental studies have recommended.
- **7.39** We did find that temporary measures were put in place after a 1998 environmental study at the Militia Training and Support Centre Meaford classified two ranges as sensitive. A new range-training management plan expected for March 2004 is to outline mitigation measures.
- 7.40 A natural resource management plan completed for Western Area Training Centre Wainwright in 1998 recommended restricting the use of offroad vehicles and munitions on sensitive ranges at critical times of the year. We were informed that some action was taken but, four years later, this restriction still is not part of operational procedures.
- 7.41 We also found that the sensitivity assessment undertaken in 1991 for the Canadian Forces Base Suffield training area is now outdated. Some assessment work was done in 1998, but it did not update the 1991 study. Since 1998, military training activity has increased.
- 7.42 Combat Training Centre Gagetown has not yet identified its sensitive ranges but has deemed some areas to be "no-go areas." A 2001 presentation by the Land Force Atlantic Area to the Departmental Senior Review Board noted that at CTC Gagetown "the potential impact caused by the current [erosion] situation would be the continued environmental degradation that would deteriorate manoeuvre ranges to the point that they would be unsuitable for users to train in." CTC Gagetown officials informed us that they plan to study this further next year.
- 7.43 We also found that studies in 1996 at Canadian Forces Base Shilo recommended that several overused training ranges be placed out of bounds for a limited period. This was not done, and German troops continued to train there until they left in December 2000.

The Department needs to do more to meet its sustainable development strategy target to implement MAPS

7.44 Implementation of the MAPS protocol is one indicator the Department uses to report on achieving its Sustainable Development Strategy 2000. The 2001–2002 Departmental Performance Report stated that 6 of 13 selected units had implemented MAPS by 2001–02. We examined four of the six units—the Cold Lake Air Weapons Range, CTC Gagetown, Area Support Unit Shilo, and Area Support Unit Valcartier. We found that the initial studies were done but mitigation, restoration, monitoring, and follow-up plans were not yet completed as required by the MAPS protocol.

- 7.45 From the data provided, we found that the implementation of accepted study recommendations at these four bases ranged from about 15 percent to 45 percent.
- **7.46** Recommendation. National Defence should finish implementing the Manoeuvre Area Planning System by developing and implementing the mitigation, restoration, monitoring, and follow-up plans and should ensure that these plans include budgets, priorities, and timelines.

Department's response. The Department recognizes the importance of the Manoeuvre Area Planning System and its implementation, and has included this subject as a target in our Sustainable Development Strategy since 1997. Our current strategy requires that priority recommendations in the plans developed from the MAPS protocol be implemented by 31 March 2004. National Defence's business planning process is the method whereby all departmental activities are prioritized, funded, and actioned. The recommendations that flow from MAPS must compete for funding with all other departmental activities.

The Department will review the progress of MAPS implementation and take the appropriate action.

Federal contaminated sites

In October 2002, the Commissioner of the Environment and Sustainable Development released a report that examined how the federal government as a whole was managing its legacy of federal contaminated sites. In her report, the Commissioner found that despite having first recognized the need to address the problem of federal contaminated sites 13 years ago, the federal government still

- does not know how many of its sites are contaminated;
- does not know the full extent of the risks to human health and the environment and the likely cost of cleaning up or managing the sites;
- does not have a ranking of the worst sites by order of risk;
- does not provide the long-term, stable funding needed to manage the problem effectively; and, most important,
- does not have a firm central commitment and leadership or an action plan
 essential to the timely clean-up or management of the higher-risk contaminated
 sites under its control.

The Commissioner cited federal contaminated sites as only one of the issues contributing to the growing sustainable development deficit. Failure to deal with this issue in a timely manner will leave an unwanted legacy for future generations.

Managing potentially contaminated

The potential exists for energetic material contamination at some sites

7.47 Contamination related to munitions has become an increasingly prominent issue. Since 1994 there has been evidence to suggest that contamination can occur as a result of firing munitions in training ranges. National Defence has done some work to identify this contamination and to manage health and safety risks. The Department views unexploded ordnance concerns as health and safety issues, separate and distinct from contamination or environmental issues.



Unexploded ordnance can be an environmental concern as well as a health and safety concern.

- 7.48 Munitions that fail to explode when fired and that are left lying on or beneath the ground can pose a safety concern. For example, forest fires at Canadian Forces Base Petawawa set off unexploded ordnance that the base was able to manage but that put firefighters at risk.
- 7.49 Energetic material in residue left on the surface after munitions explode can cause contamination. It is considered carcinogenic and mutagenic. Energetic material can also leach into the soil when munitions that fail to explode are damaged or corrode over time. Years of live firing in training ranges can leave an accumulation of this material that could eventually reach the groundwater below (see case study "The composition of ammunition fired by foreign militaries on Canadian lands was not known" below).
- 7.50 Energetic material comprises the following:
 - HMX or High Melting Explosive—a colourless solid that explodes
 violently at high temperatures and is used in various kinds of explosives
 and rocket fuels.
 - RDX or Research Department Explosive—a very explosive synthetic product used in combination with other ingredients in explosives.
 - TNT or 2, 4, 6-Trinitrotoluene—a yellow, odourless solid used in military shells, bombs, and grenades.

The composition of ammunition fired by foreign militaries on Canadian lands was not known

Ninety-nine percent of Canada's weapons systems are fired in training exercises on Canadian soil. We asked the Department for a list of in-service ammunition, complete with the chemical characteristics making up the explosive. We then asked bases which ammunition was fired in the training ranges.

All the bases fired the same ammunition and have done so for decades. Consequently, the potential exists in all these ranges for contamination resulting from energetic material either in residue from detonation or leaked from unexploded ordnance.

We asked the Department for a list of the types and compositions of ammunition fired by foreign militaries training in Canada. We were told that the Department does not have that information and we would have to contact the foreign militaries directly for it. Since the Department is not aware of the chemical composition of ammunition used by foreign militaries, it cannot be aware of the potential for contamination as a result of their training exercises.

The risks in not knowing the composition of foreign military ammunition are real and have created concern for the Department in the past. Prior to 2001, the German army trained extensively at ASU Shilo in Manitoba. In summer 2000 the German military notified the Department about potential contamination from the firing of the Milan missile system. A component of the system contained thorium, a radioactive substance and a known carcinogen. Defence Research and Development Canada–Valcartier conducted sampling in the training area and found detectable levels of thorium in the soil. The levels were below concentrations of concern. However, had the Germany military not notified it, the Department would have been unaware of the potential risk.

United States government's response to contamination on two military sites

In 1997 the United States Environmental Protection Agency ordered that no more artillery and mortar firing be conducted at the Massachusetts Military Reserve on Cape Cod until environmental investigations were completed. Energetic material, such as RDX and HMX, had been found in the soil and groundwater—the sole source of drinking water for the Cape Cod area. The data indicated that it would take about 15 years for the contamination to reach the perimeter of the reserve.

Energetic material has also been found in the water at Fort Lewis in Washington State. The facility is used for large-scale manoeuvers and live-fire operations. While training activity has not halted, negotiations with regulators are under way.

7.51 The Department established an Energetic Materials Working Group in 1996 to help manage the effects of explosive chemicals on human health and the environment. Despite plans to meet more than twice yearly to expedite its activities, the group has not met since November 2000.

Work has begun to identify some sites contaminated by energetic materials

- 7.52 Defence Research and Development Canada–Valcartier (DRDC–Valcartier) has been studying energetic materials. Defence scientists are part of international collaboration to develop methodologies for contaminated-site characterization—an approach to help identify the extent of energetic material contamination on National Defence lands. DRDC–Valcartier has conducted several studies at various locations since the mid-1990s to better understand energetic material contamination.
- 7.53 Between 1994–95 and 2002–03, Defence Research and Development Canada–Valcartier received about \$310,000 per year from the Assistant Deputy Minister for Infrastructure and Environment to do fundamental research. The Army also provided funds to the end of fiscal year 2002–03 to assess the extent of contamination, if any, at its major training sites. Although the Army requested \$2.2 million per year from a centrally funded environment program to continue this work to fiscal year 2005–06, it did not meet the program's funding criteria. The Army now plans to commit about \$500,000 annually starting in fiscal year 2003–04 to finish testing its sites, but this could mean taking longer to get all the work done. The cost to complete the environmental characterization of all Army training areas is estimated by the Army at about \$9 million.
- 7.54 Live firing has been conducted at Canadian Forces Base Borden since before World War II and several sites have been identified as likely to contain unexploded ordnance. However, since DRDC–Valcartier is looking only at Army bases right now and CFB Borden is not an Army base, its sites are not included in the study.
- 7.55 Preliminary work has been done at the Cold Lake Air Weapons Range to determine if contamination has resulted from Air Force live weapons training and testing. However, financial support is limited and additional funding is being sought for a thorough site characterization.

To develop consistent and comprehensive management plans for its contaminated sites, the Department must first identify all of them

- 7.56 National Defence has a framework that provides guidance on the management of contaminated sites. Under the Departmental Contaminated Sites Remediation Framework 1996 and the 2001 update (draft), base environment officers must review areas to see if they should be included in the base's inventory of contaminated sites. There are five stages:
 - Stage 1 contaminated site characterization and risk assessment
 - Stage 2 development of a contaminated site management strategy

- Stage 3 implementation of a contaminated site management strategy
- Stage 4 monitoring and site closure
- Stage 5 archiving and record retention
- 7.57 Training ranges that we examined were at the first stage and varied in their approaches to completing it. Some site characterizations and risk assessments were done formally with consultants, and others were based on the experience of the environment officers.
- 7.58 National Defence identifies and tracks its contaminated sites through its internal EcoNet database. The database is maintained centrally, and local environmental staff are responsible for providing accurate and up-to-date information.
- 7.59 We examined the EcoNet database to determine the comprehensiveness of the information on land-based training and test areas. We found that EcoNet does not consistently identify sites with potential contamination from the live firing of munitions.
- 7.60 The Department does not determine that a site with unexploded ordnance is potentially contaminated until energetic material is found. As a result, there are inconsistencies in its tracking and addressing energetic materials and unexploded ordnance.
- 7.61 Departmental officials told us that local staff seem to have some confusion about the use of the term "explosives" in categorizing contaminated sites. We were told that "explosives" was originally intended to categorize sites where energetic material contamination has been identified. However, local staff in some places have used it also to categorize sites with unexploded ordnance.
- 7.62 CFB Borden has at least eight ranges identified on EcoNet with potential contamination from range activity, including the presence of unexploded ordnance. CFB Shilo and CFB Gagetown each have only one range identified, even though live ordnance training was carried out on several ranges in their training areas.
- 7.63 Other bases that have live-fire ranges do not identify any training ranges potentially contaminated with energetic material or where unexploded ordnance is present. CFB Suffield does not indicate any sites in its manoeuvre area that potentially are contaminated with energetic material, despite extensive use by British and Canadian soldiers. Defence Research and Development Canada—Suffield identified one range as contaminated by high-explosive rockets from field trials.
- 7.64 CFB Petawawa and Western Area Training Centre Wainwright do not identify any ranges on EcoNet as potentially contaminated with energetic material, even though both have live-fire ranges. Furthermore, WATC Wainwright has an anti-tank range that was one of the first in Canada to be studied, and energetic material contamination was found in surface soils.

7.65 During our audit, the Department released a draft environmental directive on the management of contaminated sites in order to clarify this issue. The directive included a definition of an unexploded ordnance site:

A site where unexploded ordnance (UXO) is present or where the likelihood of UXO is prevalent based on past operations. UXOs present a clear safety hazard from accidental detonation of ordnance. A UXO site becomes a contaminated site if the energetic materials (such as TNT, RDX, HMX) leach into the soil or the groundwater, where their concentrations occur at levels that pose, or are likely to pose, an immediate or long-term risk to human health or the environment.

The Department needs to clearly determine the cost of its contaminated sites

- 7.66 In 1999, the Treasury Board Secretariat drafted the Policy on Accounting for Costs and Liabilities Related to Contaminated Sites, which became effective April 2002. The policy requires departments to identify liabilities and contingent liabilities associated with each contaminated site. Liabilities must be accounted for in the year the damaging event occurs or when the damage is identified.
- 7.67 The Department's Contaminated Sites Liability Accounting protocol identifies an unexploded ordnance site as a contingent liability if the site is known to require clearance of unexploded ordnance, and as a liability if the site is known to be contaminated by lead or energetic materials.
- 7.68 Therefore, any training area, range, or impact area can be considered a contingent liability if it is likely to be cleared of unexploded ordnance in the future. However, if clearance is not likely, the Department would not recognize the site as a contingent liability—and few sites are recognized as such. For example, while CFB Shilo has a contingent liability, other large bases such as WATC Wainwright do not have contingent liabilities for unexploded ordnance.
- 7.69 During our audit, the Department stated that all active ranges with unexploded ordnance should be recognized as having a contingent liability for surface-level clearance. Subsequently, a draft policy on Contaminated Sites Liability Accounting was prepared to address this and other issues related to contaminated sites.
- 7.70 National Defence leases land from the provinces, which can have implications for future liability. As a departmental assessment states, experience shows that training areas are not used forever and eventually must be cleared of unexploded ordnance at some level. For example, the lease for CFB Shilo in Manitoba provides that on termination of the lease, National Defence must decontaminate the land and restore it to its former condition as far as practicable. The lease could expire in 2013. Whether it will be renewed is a decision that will influence how clearance will proceed (see case study "National Defence is negotiating shared cost of cleanup of contaminated land at CFB Shilo with Germany" on page 17).

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National Defence is negotiating shared cost of cleanup of contaminated land at CFB Shilo with Germany

Canadian Forces Base Shilo sits on 40,622 hectares of land, of which 34,622 hectares are leased from the Province of Manitoba. The lease expires in 2013 but National Defence can extend it to 2034. At the end of 1999 about 26,837 hectares were assessed as needing clearance, ranging from level one (surface) to level three (free from explosives).

The German Army trained at CFB Shilo between 1974 and 2000, and National Defence has an agreement with Germany to share environmental cleanup costs. Canada and Germany are currently discussing cleanup costs but no agreement has been reached.

7.71 Recommendation. National Defence should identify the sites potentially contaminated by energetic materials and develop an action plan for mitigation that includes priorities, timetables, and budgets. It should also identify potential contamination related to munitions fired by foreign militaries.

Department's response. Contamination from energetic material is a relatively new field of science and much research remains to be undertaken. The Department continues to fund this field of study and our research has been recognized internationally. The Department realizes that additional policy direction is required in the area of contaminated site management and contamination emanating from energetic material. The nature and composition of this potential contaminant, be it from Canadian or foreign munitions, must be understood. Work on a Departmental Environmental Directive on contaminated sites, including an update of the Department's existing Contaminated Sites Remediation Framework, is already under way.

7.72 Recommendation. National Defence should review the EcoNet database for completeness and reliability in order to help establish potential future liabilities.

Department's response. Activities are under way to validate EcoNet information.

Ensuring sustained use of lands

The Army needs an overall plan for the sustained use of land training and test areas

- 7.73 In August 1998, the Army directed that its own environmental protocol, similar to MAPS, be implemented. The Army requires training areas to update environmental studies every five years. Under this direction, existing studies are now out of date and will have to be updated.
- 7.74 In July 2001, the Army released its Land Force Range and Training Area Development Plan as a framework that includes environment issues when planning exercises. One goal is to ensure that training areas will permit training for all eventualities. As the plan notes,

Since the publication of the Land Force Range and Training Area Development Plan (RTADP) draft in 1995, RTA development has not been fully realized. The development of



Routine training with heavy equipment like Leopard tanks has impacts on the environment.

RTA has been left to each area, resulting in different development priorities for each area. Without any overall Army [Land Force] plan, the long-term effects are an imbalance in the training conducted, not only affecting the quality of training, but also the over and under-utilization of certain RTA.

- 7.75 Most training areas can sustain military training if appropriate mitigation and restoration measures are put in place. And the Range Training Area Development Plan can be used to help identify environmental stress and overused ranges. However, we found that the Plan has not yet been implemented—range training area plans that follow the July 2001 framework have not been completed.
- 7.76 The Army vision of the future—Army of Tomorrow, released in spring 2002—already calls for changes in the way some training areas are now used. It says, for example, that the Army may decide to concentrate heavy combat capability training at the Western Area Training Centre Wainwright. Overall plans for environmental management are needed to ensure the sustained use of training and test areas.
- 7.77 Recommendation. National Defence should identify which types of military training are sustainable on which lands.

Department's response. "Sustainable training," "training area carrying capacity," "range and training area development," "range management," "environmental stress," and "sustainable military training" are all terms related to the same idea—where, when, and how to train so that we can continue to train in the future. Knowing the importance of training and of using our areas appropriately, now and in the future, the Department will develop indicators to measure sustainable military training on each of its training areas.

7.78 Recommendation. National Defence should ensure that it has an overall strategy for alleviating environmental stress and should include priorities, timetables, and costs in the budget planning process.

Department's response. The Department knows that environmental impacts from training must be managed. Environmental assessments, implementation of MAPS recommendations, management of energetic contamination, management of unexploded explosive ordnance, and sustainable military training are some of the many tools available that can help with alleviating environmental stress. The challenge facing the Department is arriving at an appropriate equilibrium that takes into consideration realistic training, environmental protection, and resource availability.

Priorities, timetables, and costs are all issues integral to the business planning process. National Defence's business planning process addresses all departmental requirements and environmental items must be considered in light of all the pressures facing the Department.

The Department, in continuing to develop its vision for the future, will ensure that any training changes that may unfold consider potential environmental impacts and build mitigation measures into the process.

Conclusion

- 7.79 National Defence has not always shown due regard to protecting fish and fish habitat on its training and test areas as required by the *Fisheries Act*. In one significant case, an environmental assessment was not completed as required under the *Canadian Environmental Assessment Act*. The Department's own environmental policies agree with the need to follow federal legislation consistently and are consistent with the Treasury Board Secretariat's policy on real property management. Nevertheless, our case examples show that this has not always been the Department's practice, even though it has committed to following the letter and the spirit of federal legislation.
- 7.80 National Defence has had long-standing environmental concerns, some of which have not yet been resolved—for example, issues identified at CTC Gagetown back in 1988. It needs to demonstrate environmental stewardship by identifying and resolving the environmental impacts of its activities in a timely manner. It needs to implement its Manoeuvre Area Planning System protocol, developed in 1996, to manage environmental impacts in its training and test areas.
- 7.81 The Army has begun to take an overall approach to its use of training and test areas. Its approach includes considering the environmental issues it needs to address to ensure the sustained use of the areas.
- 7.82 The Department's information on potentially contaminated sites has not been clear. Information on sites potentially contaminated with energetic material has to be recorded consistently and completely before the Department can rely on the information and take appropriate action. National Defence also needs to have information more readily available about the composition of munitions used by foreign militaries on Canadian soil.
- 7.83 The Department can do better at reporting its progress toward the target in its sustainable development strategy to implement MAPS.

Department's overall comment. Operational readiness of military forces mandates realistic training in a variety of geographic and climatic situations. National Defence needs training areas to develop, practice, and hone the skills of CF members. We recognize that the establishment of new military training areas is improbable and we acknowledge that environmental effects from training must be managed in the interest of future training. We also recognize that health and safety issues are paramount.

National Defence respects Canadian values; values that include the protection of ecologically significant areas and species. The recovery of the

Oregon Spotted Frog (Aldergrove B.C.), the establishment of the National Wildlife Area (Suffield, Alta.), and the internationally designated wetland in Nicolet, Quebec are examples of the many initiatives we have implemented to protect ecological areas and species. The Defence Team continues to work co-operatively with federal departments, agencies, and interested partners in such areas as forest canopy research and eagle nest monitoring (Esquimalt, B.C.); white pelican breeding protection (Cold Lake, Alta); archeological research (Kingston, Ont.); and fisheries habitat restoration (Gagetown, N.B.).

Military training can have complex environmental implications. Defence's environmental professionals work closely with regulatory departments and other technical experts to ensure that our mitigation activities meet expectations. Examples include sediment management (Gagetown, N.B.) and the clean-up and restoration prior to disposal of surplus training areas (Tracadie, N.B., and Calgary, Alta).

About the Audit

Objectives

The audit objective was to assess the environmental stewardship performance of National Defence in its test and training areas. More specifically, we wanted to assess

- the extent to which environmental due diligence has been exercised in the conduct of testing and training activities,
- whether the Department has adopted the principle of sustainable development for its testing and training sites, and
- whether environmental considerations have been integrated into departmental activities to ensure sustainable military training.

Scope

The audit focussed primarily on land testing and training sites, but in the course of the audit we noted certain impacts of air and sea activities.

We selected the major land training areas (see Appendix) to assess the implementation of the 1996 Manoeuvre Area Planning System (MAPS) protocol and its integration into departmental operations and activities. These training areas cover 94 percent of National Defence land areas in Canada. In July 2001 the Chief of Land Staff directed that maximum use be made of primary as well as secondary land training areas; we reviewed these training areas and specifically the suitability of the land for military activities.

Our audit identified various sites potentially contaminated by unexploded ordnance and energetic material. We assessed departmental plans to address the issue. We selected the major land training areas and Canadian Forces Base Borden. We also examined reports and information from Defence Research Development Canada–Valcartier, the United States General Accounting Office, and the United States military about site characterization and groundwater contamination.

We reviewed funding and budget allocations from the Department's Corporate Environmental Program, the business planning process over the years, and the recent priority systems.

We assessed the impact of military training activities on the environment by reviewing departmental files. Environmental legal compliance issues were assessed against various federal acts and regulations and by reviewing departmental legal opinions related to the environment.

We also met with officials from various federal departments, such as the Canadian Environmental Assessment Agency, the Canadian Forest Service, Fisheries and Oceans Canada, and Environment Canada.

Criteria

We expected that National Defence would

- achieve its own standards for environmental protection and stewardship,
- meet targets related to testing and training sites that it set in its 1997 and 2000 sustainable development strategies,
- · conform with the letter and spirit of federal legislation and policies on the environment, and
- · have adequate information systems to report on results achieved for environmental stewardship.

Audit team

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Appendix National Defence training and restorming a

	Hectares	
OTAL DND land area	1,833,730	
Alberta		
Canadian Force Base (CFB) Suffield	264,035	
Western Area Training Center (WATC) Wainwright	64,500	
Cold Lake Area Weapon Range (CLAWR) Cold Lake	541,000	
Saskatchewan		
Cold Lake Area Weapon Range (CLAWR) Cold Lake	640,000	
Manitoba		
Area Support Unit (ASU) Shilo	40,622	
Ontario		
Area Support Unit (ASU) Petawawa	34,085	
Québec		
Area Support Unit (ASU) Valcartier	21,308	
New Brunswick		
Combat Training Center (CTC) Gagetown	110,597	
tal training and test area included in audit	1,716,147	



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